Company No.

738090	M

HONG LEONG MSIG TAKAFUL BERHAD
(formerly known as Hong Leong Tokio Marine Takaful Berhad)
(Incorporated in Malaysia)

REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

Company No.

738090	M

HONG LEONG MSIG TAKAFUL BERHAD
(formerly known as Hong Leong Tokio Marine Takaful Berhad)
(Incorporated in Malaysia)

REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

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Company No.

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HONG LEONG MSIG TAKAFUL BERHAD
(formerly known as Hong Leong Tokio Marine Takaful Berhad)
(Incorporated in Malaysia)

DIRECTORS' REPORT

The Directors have pleasure in presenting their report together with the audited financial statements of the Company for the financial year ended 30 June 2011.

PRINCIPAL ACTIVITIES

The Company is principally engaged in managing Family Takaful including investment-linked business and all classes of General Takaful business. There has been no significant change in the nature of this activity during the financial year.

CHANGE OF NAME

On 5 April 2011, the Company changed its name from Hong Leong Tokio Marine Takaful Berhad to Hong Leong MSIG Takaful Berhad.

FINANCIAL RESULTS

	RM'000
Net loss for the financial year	(660)

DIVIDENDS

No dividends have been paid or declared by the Company since end of the previous financial year.

The Directors do not recommend any dividend for the financial year ended 30 June 2011.

RESERVES AND PROVISIONS

All material transfers to or from reserves or provisions during the financial year are disclosed in the financial statements.

DIRECTORS

The Directors who have held office during the period since the date of last report are as follows:

YBhg Tan Sri A. Razak bin Ramli	Chairman, Independent Non-Executive Director
Ms Loh Guat Lan	Non-Independent Non-Executive Director
Mr Choong Yee How	Non-Independent Non-Executive Director
Encik Mustapha bin Hamat	Independent Non-Executive Director
Puan Hijah Arifakh binti Othman	Non-Independent Non-Executive Director
Mr Hironari Iwakuma	Non-Independent Non-Executive Director *(Resigned on 1 April 2011)*
Mr Toshiyuki Tsukada	Non-Independent Non-Executive Director *(Appointed on 1 April 2011)*

DIRECTORS' INTERESTS

In accordance with Article 119 of the Company's Articles of Association, Encik Mustapha bin Hamat and Mr Choong Yee How retire by rotation from the Board and being eligible, offer themselves for re-election.

In accordance with Article 94 of the Company's Articles of Association, Mr Toshiyuki Tsukada retires from the Board and being eligible, offers himself for re-election.

None of the Directors holding office at the end of the financial year had any beneficial interest in ordinary shares, options over shares and debentures of the Company and/or its related corporations during the financial year ended 30 June 2011 as recorded in the Register of Directors' Shareholdings kept by the Company under Section 134 of the Companies Act, 1965, except for Mr Choong Yee How and Ms Loh Guat Lan, whose direct interests in the shares and options over shares of related corporations, are as follows:

	Number of ordinary shares /*shares issued or to be issued or acquired arising from the exercise of options				
	Nominal value per share	**As at 1 July 2010**	**Bought/ Granted**	**Sold/ Exercised**	**As at 30 June 2011**
Interest of Mr Choong Yee How in:					
Hong Leong Financial Group Berhad	RM1.00	-	960,000	-	960,000
	RM1.00	6,800,000*	-	(960,000)	5,840,000*
Interest of Ms Loh Guat Lan in:					
Hong Leong Financial Group Berhad	RM1.00	500,000*	-	-	500,000*

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by certain Directors as shown in the financial statements or the fixed salary of a full time employee of the Company or of related corporations) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

Neither at the end of the financial year, nor at any time during the financial year, did there subsist any arrangement to which the Company was a party, with the object or objects of enabling the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, other than the Executive Share Option Scheme of Hong Leong Financial Group Berhad and Hong Leong Assurance Berhad, the related corporations of the Company.

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE

The Company has complied with the prescriptive requirements of, and adopts management practices that are consistent with the principles prescribed under BNM/RH/GL/004-1 on Guidelines on Directorship for Takaful Operators and the principles of Shariah.

Board of Directors/Chief Executive Officer

The Board of Directors of the Company ("Board") assumes responsibility for effective stewardship and control of the Company and has established terms of reference to assist in the discharge of this responsibility.

The roles and responsibilities of the Board broadly cover formulation of corporate policies and strategies; overseeing and evaluating the conduct of the Company's business; identifying principal risks and ensuring the implementation of appropriate systems to manage these risks; reviewing and approving key matters such as financial results, investments and divestments, acquisitions and disposals and major capital expenditure and such other responsibilities that are required of them by Bank Negara Malaysia ("BNM") as specified in guidelines and circulars issued by BNM, from time to time.

The Chief Executive Officer of the Company is responsible for implementing the policies and decisions of the Board, overseeing the day-to-day operations, setting the plan and direction, benchmark and targets for the Company, tracking compliance and business progress, initiating innovative business ideas to create competitive edge and development of business and corporate strategies with the aim of enhancing Shareholders' wealth.

The present Board comprises the Chairman who is an Independent Non-Executive Director, four Non-Independent Non-Executive Directors and one Independent Non-Executive Director. In accordance with the Guidelines on Directorships for Takaful Operators, all Directors are appointed to the Board after approval had been obtained from BNM.

During the financial year ended 30 June 2011, six Board Meetings were held and the attendance of the Directors was as follows:

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Board of Directors/Chief Executive Officer (continued)

Directors	Attendance
YBhg Tan Sri A. Razak bin Ramli (Chairman, Independent Non-Executive Director)	6/6
Mr Choong Yee How (Non-Independent Non-Executive Director)	6/6
Encik Mustapha bin Hamat (Independent Non-Executive Director)	6/6
Ms Loh Guat Lan (Non-Independent Non-Executive Director)	6/6
Puan Hijah Arifakh binti Othman (Non-Independent Non-Executive Director)	6/6
Mr Hironari Iwakuma *(Resigned on 1 April 2011)* (Non-Independent Non-Executive Director)	4/4
Mr Toshiyuki Tsukada *(Appointed on 1 April 2011)* (Non-Independent Non-Executive Director)	2/2

Chief Executive Officer

Encik Ab Latiff bin Hj Abu Bakar had resigned from the Company with effect from 3 May 2011. While pending the appointment of a suitable Chief Executive Officer, Encik Abdul Khalid Salleh, the General Manager, Channel Management of the Company, was appointed as the Authorised Representative to directly responsible for the overall management of the Company.

Supply of Information

Board reports are circulated prior to Board meetings and the reports provide, amongst others, financial and corporate information, significant operational, financial and corporate issues, performance of the Company and management's proposal which require the approval of the Board.

All Directors have access to the advice and services of the Company Secretary as well as independent professional advice, including the Internal Auditors.

Re-election

At the annual general meeting, all the Directors are required to submit themselves for election. At subsequent annual general meetings, one third (1/3) of the Directors shall retire from office.

CORPORATE GOVERNANCE (CONTINUED)

Nominating Committee ("NC")

The members of the NC are as follows:

YBhg Tan Sri A. Razak bin Ramli	(Chairman, Independent Non-Executive Director)
Mr Choong Yee How	(Non-Independent Non-Executive Director)
Encik Mustapha bin Hamat	(Independent Non-Executive Director)
Ms Loh Guat Lan	(Non-Independent Non-Executive Director)
Puan Hijah Arifakh binti Othman	(Non-Independent Non-Executive Director)

The NC's functions and responsibilities are set out in the terms of reference as follows:

- Recommend to the Board the minimum requirements for appointments to the Board, Board committees and for the position of Chief Executive Officer.
- Review and recommend to the Board all Board appointments and re-appointments and removals including the Chief Executive Officer.
- Review annually the overall composition of the Board in terms of the appropriate size and skills, the balance between Executive Directors, Non-Executive Directors and Independent Directors, and mix of skills and other core competencies required.
- Assess annually the effectiveness of the Board and key senior management officers as a whole and the contribution by each individual Director to the effectiveness of the Board and various Board Committees based on criteria approved by the Board.
- Oversee the appointment, management succession planning and performance evaluation of key senior management officers and recommend their removal if they are found ineffective, errant and negligent in discharging their responsibilities.
- Ensure that the Board receives an appropriate continuous training programme.

During the financial year ended 30 June 2011, two (2) NC meetings were held and the attendance of the members was as follows:

Members	Attendance
YBhg Tan Sri A. Razak bin Ramli (Chairman, Independent Non-Executive Director)	2/2
Mr Choong Yee How (Non-Independent Non-Executive Director)	2/2
Encik Mustapha bin Hamat (Independent Non-Executive Director)	2/2
Ms Loh Guat Lan (Non-Independent Non-Executive Director)	2/2
Puan Hijah Arifakh binti Othman (Non-Independent Non-Executive Director)	2/2

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Remuneration Committee ("RC")

The members of the RC are as follows:

YBhg Tan Sri A. Razak bin Ramli	(Chairman, Independent Non-Executive Director)
Mr Choong Yee How	(Non-Independent Non-Executive Director)
Encik Mustapha bin Hamat	(Independent Non-Executive Director)

The RC's functions and responsibilities are set out in the terms of reference as follows:

- Recommend to the Board the framework governing the remuneration of the:
  - ❖ Directors;
  - ❖ Chief Executive Officer; and
  - ❖ Key senior management officers.
- Review and recommend to the Board the specific remuneration packages of executive directors and the Chief Executive Officer.
- Review the remuneration package of key senior management officers.

During the financial year ended 30 June 2011, one (1) RC meeting was held and the meeting was attended by all the members.

The Directors fees are set out in Note 23 to the financial statements.

CORPORATE GOVERNANCE (CONTINUED)

Board Audit and Risk Management Committee ("BARMC")

Encik Mustapha bin Hamat	(Chairman, Independent Non-Executive Director)
YBhg Tan Sri A. Razak bin Ramli	(Independent Non-Executive Director)
Ms Loh Guat Lan	(Non-Independent Non-Executive Director)

During the financial year ended 30 June 2011, six BARMC meetings were held and the attendance of the members was as follows:

Members	Attendance
Encik Mustapha bin Hamat (Chairman, Independent Non-Executive Director)	6/6
YBhg Tan Sri A. Razak bin Ramli (Independent Non-Executive Director)	6/6
Ms Loh Guat Lan (Non-Independent Non-Executive Director)	5/6

The primary functions and responsibilities of the BARMC are set out in the terms of reference as follows:

- To review the audit plan, audit charter and budget of the Internal Audit Department as well as the scope of internal audit procedures and to ensure that the Internal Audit Department is distinct and has the appropriate status within the overall organisational structure for the internal auditors to achieve their audit objectives;

- To review the overall internal management system, in particular, financial status of the Company, its internal controls in critical areas of operations, risks and implications of the internal audit findings and recommendations;

- To advise on the appointment, remuneration, performance, evaluation, removal and redeployment of the Chief Internal Auditor and senior officers of the internal audit functions;

- To review with the external auditors, the scope of their audit and audit reports, including their findings, issues or reservations arising from the interim and financial audits and any action to be taken by management;

CORPORATE GOVERNANCE (CONTINUED)

Board Audit and Risk Management Committee ("BARMC") (continued)

- To consider the provision of non-audit services by the external auditors;

- To review and assess the objectivity, performance and independence of the external auditors and to recommend the appointment or re-appointment of external auditors and to review and assess fees paid to the external auditors for their audit and non-audit services;

- To review the Chairman's statement, corporate governance disclosures in the Directors' Report, interim financial reports and all representation letters by management in relation to the financial audit of the Company;

- To review related party transactions and conflict of interest situations that may arise within the Company including any transaction, procedure or conduct that raises questions of management integrity;

- To ensure prompt publication of annual accounts of the Company. The Board is duty bound to ensure that accounts are prepared in a timely and accurate manner for regulatory, management and general reporting purposes, with frequent reviews of the adequacy of provisions and to ensure supervisory issues raised by Bank Negara Malaysia are resolved in a timely manner;

- To report and recommend to the Board measures:
  (a) to identify all critical business risks faced by the Company;
  (b) to improve risk management strategies and policies proposed by management; and
  (c) to monitor and evaluate that risks have been managed effectively.

- To review the implementation of the Risk Management Framework and risk management activities and reports; and

- Other functions as may be determined by the Board.

Internal Audit

The Chief Internal Auditor reports directly to the BARMC and provides the BARMC and management with an independent assessment of the adequacy of risk management practice. Significant breaches and deficiencies identified are discussed with the BARMC and remedial action taken by management are reported to and monitored by the BARMC.

Corporate Independence

The Company has complied with BNM/RH/GL/004-7 on Guidelines On Related Party Transactions For Takaful Operators. All necessary disclosures have been made to the Board regularly and where required, prior Board approval has been obtained. All material related party transactions are disclosed in Note 27 to the financial statements.

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Financial Reporting

The Board is responsible for ensuring that the accounting records of the Company are properly maintained. Financial and management reports of the Company are reviewed at Board meetings.

Internal Controls and Operational Risk Management

The Board holds overall responsibility for maintaining a system of internal controls, which provides reasonable assessment of effective and efficient operations, internal financial controls and compliance with laws and regulations.

The Company has established authority limits and internal controls to manage operational and financial risks. The authority limits and system of internal controls are regularly reviewed to ensure continuous improvement in the control environment.

Management Accountability

The Company operates in an organisational structure and control environment which are constantly being reviewed and enhanced to ensure that it remains appropriate for the operating environment.

Relationship with Auditors

External auditors are appointed based on the recommendation by the BARMC. The BARMC also determines the remuneration of external auditors. The external auditors meet with the BARMC to:

(a) Present the scope of audit before the commencement of audit; and

(b) Review the results of the financial year as well as the Internal Control letter after the conclusion of the audit.

HOLDING COMPANIES

The immediate and ultimate holding companies are HLA Holdings Sdn Bhd and Hong Leong Company (Malaysia) Berhad respectively, both incorporated in Malaysia.

DIRECTORS' REPORT (CONTINUED)

OTHER STATUTORY INFORMATION REGARDING THE COMPANY

(I) As at the end of the financial year

(a) Before the financial statements of the Company were made out, the Directors took reasonable steps:

(i) to ascertain that there was adequate provision for incurred claims, including incurred but not reported claims ("IBNR");

(ii) to ascertain proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and have satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and

(iii) to ensure that any current assets which were unlikely to realise their book values in the ordinary course of business had been written down to their estimated realisable values.

(b) In the opinion of the Directors, the results of the operations of the Company during the financial year have not been substantially affected by any item, transaction or event of a material and unusual nature.

(II) As at the end of the financial year to the date of this report

(a) The Directors are not aware of any circumstances:

(i) which would render the amount written off for bad debts or the amount of the allowance for doubtful debts inadequate to any material extent;

(ii) which would render the values attributed to current assets in the financial statements misleading; and

(iii) which had arisen which would render adherence to the existing method of valuation of assets and liabilities of the Company misleading or inappropriate.

(b) In the opinion of the Directors:

(i) the results of the operations of the Company for the financial year ended 30 June 2011 are not likely to be substantially affected by any item, transaction or event of a material and unusual nature which had arisen in the interval between the end of the financial year and the date of this report; and

(ii) no contingent or other liability has become enforceable, or is likely to become enforceable, within the period of twelve months after the end of the financial year which will or may affect the ability of the Company to meet their obligations as and when they fall due (for the purpose of this paragraph, contingent or other liabilities do not include liabilities arising from contract of takaful underwritten in the ordinary course of business of the Company).

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HONG LEONG MSIG TAKAFUL BERHAD
(formerly known as Hong Leong Tokio Marine Takaful Berhad)
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

OTHER STATUTORY INFORMATION REGARDING THE COMPANY (CONTINUED)

(III) As at the date of this report

(a) There are no charges on the assets of the Company which had arisen since the end of the financial year to secure the liabilities of any other person;

(b) There are no contingent liabilities which had arisen since the end of the financial year; and

(c) The Directors are not aware of any circumstances not otherwise dealt with in the report or financial statements which would render any amount stated in the financial statements misleading.

SIGNIFICANT EVENT DURING THE YEAR

HLA Holdings Sdn Bhd ("HLAH"), the holding company of the Company, had on 1 April 2011 entered into share sale agreements with Tokio Marine & Nichido Fire Insurance Co., Ltd ("TMNFI") and Mitsui Sumitomo Insurance Company, Limited ("MSIJ"), respectively, for the following:-

(I) Aquisition by HLAH of 35% equity interest in the Company from TMNFI for a cash consideration of RM33,642,700 ("Acquisition"); and

(II) Disposal by HLAH of 35% equity interest in the Company to MSIJ for a cash consideration of RM33,642,700 ("Disposal").

Upon completion of the above acquisition and disposal on 1 April 2011, the 35,000,000 ordinary shares of RM1.00 each, representing 35% equity interest in the Company was transferred from TMNFI to MSIJ.

AUDITORS

The auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office.

Signed on behalf of the Board, in accordance with, a resolution of the Directors dated

MUSTAPHA BIN HAMAT
DIRECTOR

CHOONG YEE HOW
DIRECTOR

Kuala Lumpur
29 SEP 2011

Company No.

738090	M

HONG LEONG MSIG TAKAFUL BERHAD
(formerly known as Hong Leong Tokio Marine Takaful Berhad)
(Incorporated in Malaysia)

STATEMENT BY DIRECTORS PURSUANT TO SECTION 169 (15) OF THE COMPANIES ACT, 1965

We, Mustapha bin Hamat and Choong Yee How, being two of the Directors of Hong Leong MSIG Takaful Berhad (formerly known as Hong Leong Tokio Marine Takaful Berhad), state that, in the opinion of the Directors, the financial statements set on pages 17 to 103 are drawn up so as to give a true and fair view of the state of affairs of the Company as at 30 June 2011 and of the results and cash flows of the Company for the financial year ended on that date in accordance and comply with the provisions of the Companies Act, 1965, and the Takaful Act, 1984 and the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities as modified by the Guidelines on Financial Statements for Takaful Operators ("GPT6") issued by Bank Negara Malaysia.

On behalf of the Board,

MUSTAPHA BIN HAMAT
DIRECTOR

CHOONG YEE HOW
DIRECTOR

Kuala Lumpur

STATUTORY DECLARATION PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965

I, Abdul Khalid bin Salleh, the Officer primarily responsible for the financial management of Hong Leong MSIG Takaful Berhad (formerly known as Hong Leong Tokio Marine Takaful Berhad), do solemnly and sincerely declare that the financial statements set out on pages 17 to 103 are, to the best of my knowledge and belief, correct, and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared)
by the above named Abdul Khalid bin Salleh)
at Kuala Lumpur in)
Wilayah Persekutuan on 29 SEP 2011)
)

Abdul Khalid bin Salleh

Before me,

PESURUHJAYA SUMPAH
No: W 594
P. VALLIAMAH
MALAYSIA

Lot 112, Tingkat Satu,
Wisma MPL, Jalan Raja Chulan
50200 Kuala Lumpur.

HONG LEONG MSIG TAKAFUL BERHAD
(formerly known as Hong Leong Tokio Marine Takaful Berhad)
(Incorporated in Malaysia)

REPORT OF THE SHARIAH COMMITTEE

CORPORATE GOVERNANCE

Shariah Commitee ("SC")

The members of the SAC are as follows:

Assoc. Prof. Dr. Ab. Mumin Ab. Ghani	(Chairman)
Asst.. Prof. Dr. Uzaimah Ibrahim	(Member)
Prof. Dr. Muhamad Humayon Abbas Dar	(Member)
Prof. Dr. Malik Muhammed Mahmood Al-Awan	(Member)

During the financial year ended 30 June 2011, six SC meetings were held and the attendance of the members was as follows:

Members	Attendance
Assoc. Prof. Dr. Ab. Mumin Ab. Ghani (Chairman)	6/6
Asst. Prof. Dr. Uzaimah Ibrahim	5/6
Prof. Dr. Muhamad Humayon Abbas Dar	6/6
Prof. Dr. Malik Muhammed Mahmood Al-Awan	6/6

Company No.

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HONG LEONG MSIG TAKAFUL BERHAD
(formerly known as Hong Leong Tokio Marine Takaful Berhad)
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REPORT OF THE SHARIAH ADVISORY COMMITTEE

In the name of Allah, The Beneficent, The Merciful.

To the Shareholders of Hong Leong MSIG Takaful Berhad (formerly known as Hong Leong Tokio Marine Takaful Berhad),

In compliance with the letter of appointment, we are required to submit the following report:

We have reviewed the principles and the contracts relating to the transactions and applications introduced by the Company during the financial year ended 30 June 2011. We have also conducted our review to form an opinion as to whether the Company has complied with Shariah rules and principles and with the specific fatwas, rulings and guidelines issued by us.

The Company's management is responsible for ensuring that the Company conducts its business in accordance with Shariah rules and principles. It is our responsibility to form an independent opinion and report, based on our review of the operations of the Company.

We performed our review on the basis of information and explanations provided to us which are deemed essential together with sufficient evidence to give reasonable assurance that the Company has not violated Shariah rules and principles.

In our opinion:

a) the contracts, transactions and dealings entered into by the Company during the financial year ended 30 June 2011 that we have reviewed are in compliance with the Shariah rules and principles;

b) the main sources and investments of the Company disclosed to us conform to the basis that had been approved by us in accordance with Shariah rules and principles;

We beg Allah the Almighty to grant us all the success and straight-forwardness.

On behalf of the Shariah Committee:

ASSOC. PROF. DR. AB. MUMIN AB. GHANI
Chairman
Shariah Committee

ASST. PROF. DR. UZAIMAH IBRAHIM
Member
Shariah Committee

Kuala Lumpur
29 SEP 2011

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INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF HONG LEONG MSIG TAKAFUL BERHAD
(formerly known as Hong Leong Tokio Marine Takaful Berhad)
(Incorporated in Malaysia)
(Company No. 738090 M)

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Hong Leong MSIG Takaful Berhad (formerly known as Hong Leong Tokio Marine Takaful Berhad), which comprise the statement of financial position as at 30 June 2011, and the statements of comprehensive income, changes in equity and cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 17 to 103.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities as modified by the Guidelines on Financial Statements for Takaful Operators ("GPT6") issued by Bank Negara Malaysia and comply with the Companies Act, 1965 and Takaful Act, 1984 and for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers (AF 1146), Chartered Accountants,
Level 10, 1 Sentral, Jalan Travers, Kuala Lumpur Sentral, P.O. Box 10192, 50706 Kuala Lumpur, Malaysia
T: +60 (3) 2173 1188, F: +60 (3) 2173 1288, www.pwc.com/my

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INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF HONG LEONG MSIG TAKAFUL BERHAD (CONTINUED)
(formerly known as Hong Leong Tokio Marine Takaful Berhad)
(Incorporated in Malaysia)
(Company No. 738090 M)

REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities as modified by the Guidelines on Financial Statements for Takaful Operators ("GPT6") issued by Bank Negara Malaysia and comply with the Companies Act, 1965 and Takaful Act, 1984, so as to give a true and fair value of the financial position of the Company as of 30 June 2011 and of its financial performance and cash flows for the financial year then ended.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that, in our opinion, the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

PRICEWATERHOUSECOOPERS
(No. AF:1146)
Chartered Accountants

SRIDHARAN NAIR
(No. 2656/05/12 (J))
Chartered Accountant

Kuala Lumpur
29 September 2011

Company No.

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HONG LEONG MSIG TAKAFUL BERHAD
(formerly known as Hong Leong Tokio Marine Takaful Berhad)
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2011

	Note	2011	Restated 2010	Restated 2009
		RM'000	RM'000	RM'000
ASSETS				
SHAREHOLDERS' FUND ASSETS				
Property and equipment	4	965	991	872
Intangible assets	5	490	977	1,336
Investments	6(a)	-	93,982	93,993
Financial assets - available-for-sale	7	69,396	-	-
Loans and receivables	8	26,274	-	-
Other receivables	11	8,173	2,996	2,183
Current tax recoverable		30	-	-
Cash and bank balances	12	2,439	861	634
Total Shareholders' fund assets		107,767	99,807	99,018
Total General Takaful fund assets		64,482	18,847	6,051
Total Family Takaful fund assets		167,506	268,442	229,948
TOTAL ASSETS		339,755	387,096	335,017
EQUITIES AND LIABILITIES				
Share capital	17	100,000	100,000	100,000
Accumulated losses		(5,944)	(5,589)	(4,006)
Fair value reserve		1,989	-	-
TOTAL EQUITY		96,045	94,411	95,994
LIABILITIES				
SHAREHOLDERS' FUND LIABILITIES				
Other payables	15	8,721	4,803	2,482
Due to related companies	27	919	346	205
Deferred tax liabilities	16	858	-	-
Deferred wakalah income		1,224	247	337
Total Shareholders' fund liabilities		11,722	5,396	3,024
Total General Takaful fund liabilities		64,482	18,847	6,051
Total Family Takaful fund liabilities		167,506	268,442	229,948
TOTAL LIABILITIES		243,710	292,685	239,023
TOTAL EQUITY AND LIABILITIES		339,755	387,096	335,017

The accompanying notes form an integral part of the financial statements

Company No.

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HONG LEONG MSIG TAKAFUL BERHAD
(formerly known as Hong Leong Tokio Marine Takaful Berhad)
(Incorporated in Malaysia)

STATEMENT OF COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

	Note	2011 RM'000	Restated 2010 RM'000
Operating revenue	18	92,753	67,146
Shareholders' fund			
Share of investment profit from:			
Family Takaful		151	113
General Takaful		20	8
Wakalah fee		20,147	10,300
Investment income	19	3,720	3,491
Net fair value losses	21	(365)	-
Other operating income	22	166	360
Other income		23,839	14,272
Commission paid		(11,003)	(5,235)
Management expenses	23	(13,047)	(9,997)
Other expenses		(24,050)	(15,232)
Loss before taxation		(211)	(960)
Zakat		(254)	(623)
Taxation	24	(195)	-
Net loss for the financial year		(660)	(1,583)
Other comprehensive income for the financial year			
Fair value change on available-for-sale financial assets:			
- Gross fair value change		2,077	-
- Deferred taxation (Note 16)		(519)	-
- Net fair value change		1,558	-
Total comprehensive income/(loss) for the financial year		898	(1,583)

The accompanying notes form an integral part of the financial statements

Company No.

738090	M

HONG LEONG MSIG TAKAFUL BERHAD
(formerly known as Hong Leong Tokio Marine Takaful Berhad)
(Incorporated in Malaysia)

GENERAL TAKAFUL STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2011

	Note	2011 RM'000	Restated 2010 RM'000	Restated 2009 RM'000
ASSETS				
Investments	6(b)	-	2,719	1,928
Financial assets - available-for-sale	7	2,234	-	-
Loans and receivables	8	14,845	-	-
Takaful receivables	9	12,888	8,197	991
Retakaful assets	10	25,539	5,737	2,990
Other receivables	11	4,147	1,323	84
Deferred tax assets	16	1,402	-	-
Current tax recoverable		953	-	-
Cash and bank balances	12	2,474	871	58
TOTAL ASSETS		64,482	18,847	6,051
LIABILITIES				
Takaful contract liabilities	13	44,392	11,753	4,390
Takaful payables	14	19,646	6,419	1,573
Other payables	15	444	675	88
TOTAL LIABILITIES		64,482	18,847	6,051

The accompanying notes form an integral part of the financial statements

Company No.

738090	M

HONG LEONG MSIG TAKAFUL BERHAD
(formerly known as Hong Leong Tokio Marine Takaful Berhad)
(Incorporated in Malaysia)

GENERAL TAKAFUL STATEMENT OF COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

	Note	2011 RM'000	2010 RM'000
Gross contribution	18	50,592	16,716
Contribution ceded to retakaful operators		(31,134)	(10,406)
Net contribution		19,458	6,310
Change in unearned contribution reserve		(6,545)	(3,240)
Net earned contribution		12,913	3,070
Net investment income	19	184	72
Commission income		8,041	2,538
Other operating income	22	-	18
Other income		8,225	2,628
Gross claims paid		3,701	644
Claims ceded to retakaful operators		(1,819)	(343)
Gross change to outstanding claim liabilities		14,928	4,275
Change in outstanding claim liabilities ceded to retakaful operators		(8,970)	(2,325)
Net claims		7,840	2,251
Wakalah fee expense		13,631	4,709
Other operating expenses	22	5,650	966
Other expenses		19,281	5,675
Deficit before taxation		(5,983)	(2,228)
Taxation	24	1,402	-
Deficit after taxation		(4,581)	(2,228)

The accompanying notes form an integral part of the financial statements

Company No.

738090	M

HONG LEONG MSIG TAKAFUL BERHAD
(formerly known as Hong Leong Tokio Marine Takaful Berhad)
(Incorporated in Malaysia)

FAMILY TAKAFUL STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2011

	Note	2011 RM'000	Restated 2010 RM'000	Restated 2009 RM'000
ASSETS				
Investments	6(c)	-	242,718	214,421
Financial assets - available-for-sale	7	23,225	-	-
Financial assets - fair value through profit or loss	7	82,090	-	-
Loans and receivables	8	15,313	-	-
Takaful receivables	9	5,878	1,685	201
Retakaful assets	10	33,072	20,916	13,670
Other receivables	11	552	363	189
Deferred tax assets	16	-	30	99
Cash and bank balances	12	7,376	2,730	1,368
TOTAL FAMILY TAKAFUL ASSETS		167,506	268,442	229,948
LIABILITIES				
Takaful contract liabilities	13	158,031	265,739	227,432
Takaful payables	14	5,190	1,507	125
Other payables	15	3,522	1,196	2,391
Deferred tax liabilities	16	344	-	-
Current tax liabilities		419	-	-
TOTAL FAMILY TAKAFUL LIABILITIES		167,506	268,442	229,948

The accompanying notes form an integral part of the financial statements

HONG LEONG MSIG TAKAFUL BERHAD
(formerly known as Hong Leong Tokio Marine Takaful Berhad)
(Incorporated in Malaysia)

FAMILY TAKAFUL STATEMENT OF COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

	Note	2011 RM'000	2010 RM'000
Gross contributions	18	35,130	46,034
Contribution ceded to retakaful operators		(8,391)	(4,323)
Net earned contributions		26,739	41,711
Net investment income	19	3,127	833
Realised gains	20	1,983	-
Fair value gains on financial assets designated at fair value through profit or loss	21	8,000	720
Other income		13,110	1,553
Gross benefit and claims paid		157,177	7,435
Claims ceded to retakaful operators		(5,637)	(859)
Gross change to claims liabilities		1,882	(115)
Change in claims liabilities ceded to retakaful operators		(1,692)	46
Net benefits and claims paid		151,730	6,507
Wakalah fees expense		7,492	5,501
Other operating expenses	22	165	45
Other expenses		7,657	5,546
(Deficit)/surplus before taxation		(119,538)	31,211
Taxation	24	(885)	(154)
(Deficit)/surplus after taxation		(120,423)	31,057

The accompanying notes form an integral part of the financial statements

Company No.

738090	M

HONG LEONG MSIG TAKAFUL BERHAD
(formerly known as Hong Leong Tokio Marine Takaful Berhad)
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

		Issued and fully paid ordinary shares of RM1 each		Non-distributable		
	Note	Number of shares	Nominal Value	AFS reserve	Accumulated losses	Total
			RM'000	RM'000	RM'000	RM'000
At 1 July 2010						
- As previously reported		100,000	100,000	-	(5,342)	94,658
- Effect of adoption of FRS 4 adjusted retrospectively	3(c)	-	-	-	(247)	(247)
		100,000	100,000	-	(5,589)	94,411
- Effect of adoption of FRS 139 adjusted prospectively	3(c)	-	-	431	305	736
- As adjusted		100,000	100,000	431	(5,284)	95,147
Total comprehensive income / (loss) for the financial year		-	-	1,558	(660)	898
At 30 June 2011		100,000	100,000	1,989	(5,944)	96,045
At 1 July 2009						
- As previously reported		100,000	100,000	-	(3,878)	96,122
- Effect of adoption of FRS 4 adjusted retrospectively	3(c)	-	-	-	(128)	(128)
- As adjusted		100,000	100,000	-	(4,006)	95,994
Total comprehensive loss for the financial year, as adjusted		-	-	-	(1,583)	(1,583)
At 30 June 2010		100,000	100,000	-	(5,589)	94,411

The accompanying notes form an integral part of the financial statements

Company No.

738090	M

HONG LEONG MSIG TAKAFUL BERHAD
(formerly known as Hong Leong Tokio Marine Takaful Berhad)
(Incorporated in Malaysia)

CASH FLOW STATEMENTS
FOR THE FINANCAL YEAR ENDED 30 JUNE 2011

	2011 RM'000	Restated 2010 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the financial year	(660)	(1,583)
Adjustments for:		
Impairment of takaful receivables	5,650	966
Depreciation of property and equipment	355	288
Amortisation of intangible assets	512	488
Gain on disposal of investments	(1,983)	(76)
Unrealised fair value gain on financial assets	(8,000)	(720)
Accretion of discounts - net	(311)	(191)
Profits and dividend income	(6,891)	(4,250)
Allowance for/(reversal of) diminution in value of investments	365	(349)
Taxation expense	(322)	154
Profit from operations before changes in operating assets and liabilities	(11,285)	(5,273)
Proceeds from disposal of investments	1,395	-
Maturity of investments	147,168	-
Purchase of investments	(8,300)	(50,681)
Increase/(decrease) in deferred wakalah fee	977	(90)
(Decrease)/increase in Family contract liabilities (excluding available-for-sale reserve)	(108,077)	38,307
Increase in General contract liabilities (excluding available-for-sale reserve)	32,611	7,363
(Increase)/decrease in loan and receivables/deposits and money market placements	(20,938)	22,941
Increase in retakaful assets	(31,958)	(9,993)
Increase in takaful receivables	(14,534)	(9,656)
Increase in other receivables	(8,148)	(1,796)
Increase in takaful payables	16,910	6,228
Increase in other payables	6,013	1,713
Increase in amount due to related companies	573	141
	2,407	(796)
Tax paid	(1,075)	(86)
Profit received	6,685	3,762
Dividends received	164	58
Net cash generated from operating activities	8,181	2,938

Company No.

738090	M

HONG LEONG MSIG TAKAFUL BERHAD
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(Incorporated in Malaysia)

CASH FLOW STATEMENTS
FOR THE FINANCAL YEAR ENDED 30 JUNE 2011(CONTINUED)

	2011 RM'000	2010 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of intangible assets	(25)	(129)
Purchase of property and equipment	(329)	(407)
Net cash used in investing activities	(354)	(536)
Net increase in cash and cash equivalents	7,827	2,402
Cash and cash equivalents at beginning of financial year	4,462	2,060
Cash and cash equivalents at end of the financial year	12,289	4,462
Cash and cash equivalents comprise:		
Shareholders' fund	2,439	861
Family fund	7,376	2,730
General fund	2,474	871
	12,289	4,462

The accompanying notes form an integral part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

1 CORPORATE INFORMATION

The Company is engaged principally in the managing of Family Takaful including investment-linked business and all classes of General Takaful business. There has been no significant change in the nature of these activities during the financial year.

The Company is a public limited liability company, incorporated and domiciled in Malaysia. The registered office of the Company is located at Level 8, Wisma Hong Leong, 18, Jalan Perak, 50450 Kuala Lumpur. The principal place of business of the Company is located at Level 5, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur.

The immediate and ultimate holding companies are HLA Holdings Sdn Bhd and Hong Leong Company (Malaysia) Berhad respectively, both incorporated in Malaysia.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 29 September 2011.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Unless otherwise stated, the following accounting policies have been applied consistently in dealing with items that are considered material in relation to the financial statements and to all the financial years presented.

Basis of preparation

The financial statements of the Company have been prepared under the historical cost convention except as disclosed in this significant accounting policies and comply with MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities as modified by the Guidelines on Financial Statements for Takaful Operators (“GPT6”) issued by Bank Negara Malaysia, and comply with the provisions of the Companies Act, 1965, and the Takaful Act, 1984 in all material aspects.

The preparation of financial statements in conformity with Financial Reporting Standards requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported financial year. It also requires Directors to exercise their judgment in the process of applying the Company’s accounting policies. Although these estimates are based on the Directors' best knowledge of current events and actions, actual results may differ.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.3.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies

(a) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment includes expenditure that is directly attributable to the acquisition of the items.

Subsequent expenditure are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised.

Repairs and maintenance costs are charged to profit or loss during the financial year in which they are incurred.

Property, plant and equipment are depreciated on the straight line basis to write off the cost of the assets, to their residual values over their estimated useful lives, summarised as follows:

Computer equipment	5 years
Furniture & fittings, office equipment and renovations	5 years
Motor vehicles	4 years

Work-in-progress is carried at cost and is depreciated when the asset is available for use.

The residual values and useful lives of property, plant and equipment are reviewed, and adjusted as appropriate, at each date of statement of financial position.

At each date of statement of financial position, the Company assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. See accounting policy Note 2.2 (e) on impairment of assets.

Gains and losses on disposals are determined by comparing proceeds with the carrying amounts and are included in the profit or loss.

(b) Intangible assets - computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives.

Costs associated with maintaining computer software programmes are recognised as an expense when incurred. Costs that are directly associated with identifiable and unique software products controlled by the Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(b) Intangible assets - computer software (continued)

Computer software development costs recognised as assets are amortised using the straight line method over their estimated useful lives, not exceeding a period of 5 years.

(c) Financial Instruments

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

Arising from the adoption of FRS 139 with effect from 1 July 2011, financial instruments are categorised and measured using accounting policies as mentioned below.

A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset from another enterprise, a contractual right to exchange financial instruments with another enterprise under conditions that are potentially favourable, or an equity instrument of another enterprise.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another enterprise, or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable.

(i) Initial recognition and measurement

A financial instrument is recognised in the financial statements when, and only when, the Company becomes a party to the contractual provisions of the instrument.

A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

An embedded derivative is recognised at its fair value separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic charateristics and risks of the host contract and the host contract is not categorised at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

(ii) Financial instrument categories and subsequent measurement

Financial assets

The Company classifies its financial assets into the following categories: financial assets at fair value through profit or loss ("FVTPL"), financial assets available-for-sale ("AFS"), financial assets held-to-maturity ("HTM"), loans and receivables (“LAR”). Classification of the financial assets is determined at initial recognition and relates to the purpose for which the investments were acquired.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(c) Financial Instruments (continued)

(ii) Financial instrument categories and subsequent measurement (continued)

(1) Financial assets at FVTPL

Financial assets at FVTPL comprise held-for-trading financial assets and financial assets other than held-for-trading that are designated at fair value through profit or loss.

a) Held-for-trading financial assets are financial assets that are acquired and held principally for the purpose of selling in the short term or it is part of a portfolio of identified securities that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. This includes derivatives that are not designated for hedges.

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at cost.

b) Financial assets other than held-for-trading that are designated at fair value are classified as such if this eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. All financial assets held in the invesment-linked funds are designated at fair value through profit or loss at inception

Financial assets classified as FVTPL are subsequently measured at their fair values with fair value adjustments and realized gains or losses recognised in profit or loss of the respective funds. Equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost.

(2) AFS financial assets

AFS financial assets are non-derivative financial assets that are not classified in any of the other categories and are measured at fair value.

AFS financial assets are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition and are subsequently carried at fair value. Fair value gains or losses of those financial assets are reported as a separate component of equity until the investment is derecognised or investment is determined to be impaired except for the takaful funds, where such fair value gains or losses are reported as a separate component of the takaful contracts liabilities. When these assets are sold or impaired, the accumulated fair value adjustments previously recognised in equity or takaful contract liabilities are included in the profit or loss as net realised gains or losses of the respective funds.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(c) Financial Instruments (continued)

(ii) Financial instrument categories and subsequent measurement (continued)

(3) HTM financial assets

HTM financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company has the positive intention or the ability to hold to maturity.

Financial assets categorised as HTM are subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Gains and losses are recognised in profit or loss of respective funds when HTM financial assets are derecognised or impaired.

(4) LAR financial assets

LAR financial assets are financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

After initial measurement, loans and receivables are measured at amortised cost, using the effective yield method, less provision for impairment. Gains and losses are recognised in profit or loss of respective funds when the financial assets are derecognised or impaired, as well as through the amortisation process.

<u>Financial liabilities</u>

All financial liabilities are initially measured at fair value and subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprises financial liabilities that are held for trading, or financial liabilities that are specifically designated into this category upon initial recognition.

Other financial liabilities categorised as fair value through profit or loss are subsequently measured at fair values with the gain or loss recognised in profit or loss of respective funds.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(c) Financial Instruments (continued)

(iii) Derecognition

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred to another party without retaining control or substantially all risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cummulative gain or loss that had been recognised in equity is recognised in profit or loss of the respective funds.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged or cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss of the respective funds.

(d) Fair value of financial instruments

The fair values of Malaysian Government Securities, Government Investment Issues and unquoted corporate securities are based on indicative fair market prices/index by reference to the quotations provided by banks and brokers.

The fair values of quoted securities are based on current market prices. If the market for a financial asset is not active, the Company establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models.

The fair value of structured deposits is based on the prices quoted by the issuing financial institution.

The fair value of floating rate and over-night deposits with financial institutions is their carrying value. The carrying value is the cost of the deposit or placement and accrued profit. The fair value of fixed profit or yield-bearing deposits is measured at the face value or market value, whichever is lower.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(e) Impairment

(i) Financial assets, excluding takaful receivables

The Company assesses at each date of the statement of financial position whether a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the asset that can be reliably estimated.

(i) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss in respect of loans and other receivables and HTM financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective yield. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss of the respective funds.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which and impairment loss is or continues to be recognised are not included in a collective assessment of impairment. The impairment assessment is performed at each reporting date.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss of the respective funds.

(ii) Financial assets carried at cost

If there is objective evidence that an impairment loss on financial assets carried at cost (e.g. equity instrument of which there is no active market or whose fair value cannot be reliably measured) has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for similar securities. Such impairment losses are recognised in profit or loss of the respective funds and shall not be reversed.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(e) Impairment (continued)

(iii) Financial assets carried at fair value

In the case of investments classified as AFS, a significant or prolonged decline in the fair value of the financial assets below its cost is considered in determining whether the assets are impaired. If any such evidence exists for AFS financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in equity or takaful contract liabilities, is transferred from equity through the statement of comprehensive income or from takaful contract liabilities to profit or loss of the respective funds.

If, in a subsequent period, the fair value of a debt instrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss. Impairment losses previously recognised in profit or loss for equity instruments are not reversed through the profit or loss.

(ii) Non-financial assets

At each date of statement of financial position, the Company reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. Impairment is measured by comparing carrying values of the assets with their recoverable amounts. The recoverable amount is the higher of the net realisable value and the value in use, which is measured by reference to discounted cash flows.

An impairment loss is charged to profit or loss of the respective funds immediately. Reversal of impairment losses recognised in prior years is recorded when the impairment losses recognised for the asset no longer exist or have decreased. A reversal of such impairment loss is recognised in profit or loss of respective funds immediately.

(f) Takaful receivables

Takaful receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, takaful receivables are measured at amortised cost, using the effective yield method.

If there is objective evidence that the takaful receivable is impaired, the Company reduces the carrying amount of the takaful receivable accordingly and recognises that impairment loss in profit or loss of respective takaful funds. The Company gathers the objective evidence that a takaful receivables is impaired using the same process adopted for financial assets at amortised costs. The impairment loss is calculated under the same method used for these financial assets. These processes are described in Note 2.2 (e).

Takaful receivables are derecognised when the derecognition criteria for financial assets, as described in Note 2.2(c)(iii) have been met.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(g) Cash and cash equivalents

Cash and cash equivalents consist of cash balances and deposits held at call with Islamic financial institutions with original maturities of three month or less.

(h) Taxation

Current tax expense is determined according to the tax laws of the jurisdiction in which the Company operates and includes all taxes based upon the taxable profits.

Deferred tax is recognised in full, using the statement of financial position method, providing for temporary differences arising between the carrying amounts of assets and liabilities for tax purpose. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable profit or loss.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or unused tax losses can be utilised.

Tax rates enacted or substantively enacted by the statement of financial position date are used to determine deferred tax.

(i) Zakat

Zakat represents tithes payable by the Company to comply with Shariah principles and as approved by the Shariah Advisory Committee. Zakat provision is calculated based on 2.5% of net asset method. Zakat is only provided when there is a commitment or an obligation exists as at financial year end.

(j) Management expenses, commission expenses and wakalah fee

Acquisition costs, commissions and management expenses are borne by the Family Takaful and General Takaful funds respectively in profit or loss at an agreed percentage of the gross contribution, in accordance with the principles of “Wakalah” as approved by the Company’s Shariah Advisory Committee and agreed between the participants and the Company. These expenses are allocated to the Shareholders' fund via upfront wakalah fee and deferred wakalah fee.

Upfront wakalah fee is allocated to the Shareholders' fund and recognised as income upon issuance of certificates.

Deferred wakalah fee is allocated to the Shareholders' fund upon monthly allocation of tabarru'/donation from the participants' fund to the risk fund and is deferred as a liability under "deferred wakalah fee reserve". Deferred wakalah fee is recognised as income in the Shareholders' fund based on the recommendation by the Appointed Actuary when the risk fund is in a surplus position after an annual actuarial valuation of the risk fund at the end of the financial year.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(j) Management expenses, commission expenses and wakalah fee (continued)

At each reporting date, the Company estimates its net future expenses cashflow required on the maintenance of the takaful funds. If the estimate shows that there is a deficiency in the net future expense cashflow, the deficiency is recognised as an additional deferred wakalah fee.

In the event that the risk fund is in a deficit position, the deficit in the risk fund will be made good by the "deferred wakalah fee reserve" before the Shareholders' fund via a benevolent loan or Qardh

(k) Employee benefits

Short-term employee benefits

Wages, salaries, paid annual leave, bonuses and non-monetary benefits, which are short-term employee benefits, are accrued in the financial year in which the associated services are rendered by employees of the Company.

Post employment benefits

The Company's contributions to the national defined contribution plan, the Employees' Provident Fund, are charged to profit or loss of the respective funds in the financial year to which they relate. Once the contributions have been paid, the Company has no further payment obligations.

(l) Product classification

The Company on behalf of takaful funds, issues contracts that transfer takaful risk and financial risk.

Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rate, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Takaful risk is the risk other than financial risk.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(l) Product classification (continued)

Takaful contracts are those contracts that transfer significant takaful risk. A takaful contract is a contract under which the takaful operator on behalf of takaful funds has accepted significant takaful risk from another party (the participants) by agreeing to compensate the participants if a specified uncertain future event (the takaful event) adversely affects the participants. As a general guideline, the Company defines significant takaful risk to be the possibility of having to pay benefits on the occurrence of a takaful event that are at least 5% more than the benefits payable if the takaful event did not occur.

Investment contracts are those contracts that do not transfer significant takaful risk.

Once a contract has been classified as a takaful contract, it remains a takaful contract for the remainder of its life time, even if the takaful risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as takaful contracts after inception if takaful risk becomes significant.

Based on the Company's assessment, all such contracts underwritten by the Company meet the definition of takaful contracts and accordingly are classified as takaful contracts.

Takaful contracts are further classified as being either with or without discretionary participation features ("DPF"). DPF is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits that are:

- likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the Company; and
- that are contractually based on the:
  - performance of a specified pool of contracts or a specified type of contract;
  - realised and/or unrealised investment returns on a specified pool of assets held by the Company; or
  - the profit or loss of the Company, fund or other entity that issues the contract.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(l) Product classification (continued)

Surpluses in the DPF fund are distributable to participants and the Company in accordance with the relevant terms under the takaful contracts. The Company however has the discretion over the amount and timing of the distribution of these surpluses to participants, subject to the advice of the Company's Appointed Actuary. The Company does not recognise the guaranteed component separately from the DPF and the whole contract liabilities, including both guaranteed and discretionary and unallocated surplus at the end of the reporting period are held within the takaful contract liabilities.

For financial options and guarantees which are not closely related to the host takaful contract, bifurcation is required to measure these embedded derivatives separately at fair value through profit or loss. However, bifurcation is not required if the embedded derivative is itself a takaful contract, or embedded options to surrender takaful contracts for a fixed amount (or an amount based on a fixed amount and an interest rate).

Takaful contracts that contain both a financial risk component and a significant takaful risk component are not unbundled and classified as takaful contracts as the current accounting policy recognises all takaful contributions, claims and benefit payments, expenses and valuation of future benefit payments, inclusive of the investment component, through the profit or loss.

(m) Retakaful contracts

Takaful funds cede takaful risk in the normal course of business for its businesses. Retakaful assets represent balances due from retakaful operators. Amounts recoverable from retakaful operators are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the retakaful's policies and are in accordance with the related retakaful contracts.

Ceded retakaful arrangements do not relieve the fund from its obligations to participants. Contributions and claims are presented on a gross basis for both ceded and assumed retakaful.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(m) Retakaful contracts (continued)

Retakaful assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting period. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the retakaful asset that the fund may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the fund will receive from the retakaful operator. The impairment loss is recorded in profit or loss.

The fund also assumes retakaful risk in the normal course of business for Family Takaful and General Takaful contracts when applicable.

Contributions and claims on assumed facultative retakaful are recognised as revenue or expenses in the same manner as they would be if the retakaful were considered direct business, taking into account the product classification of the ceded retakaful business. Contributions, claims and other transactions costs on assumed treaty retakaful are accounted for upon notification by the ceding companies or upon receipts of statements of accounts.

Retakaful liabilities represent balances due to retakaful operators. Amounts payable are estimated in a manner consistent with the related retakaful contract.

Retakaful assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Retakaful contracts that do not transfer significant takaful risk are accounted for directrly through the statement of financial position. These are deposit assets or financial liabilities that are recognised based on the consideration paid or received less an explicit identified contributions or fees to be retained by the retakaful operator.

(n) Family Takaful contracts

Family Takaful fund

The Family Takaful fund is maintained in accordance with the requirements of the Takaful Act, 1984 and includes the amount attributable to participants, if any. The amount attributable to participants represents the accumulated surplus attributable to the participants as determined by an annual actuarial valuation of the Family Takaful fund, and is distributed in accordance with the terms and conditions prescribed by the Shariah Committee of the Company. Based on the terms of takaful contracts issued by the Company, no underwriting surplus is attributable to participants.

Any actuarial deficit in the Family Takaful fund will be made good by the Shareholder's fund via a benevolent loan or Qardh.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(n) Family Takaful contracts (continued)

Contribution income

Contributions include contributions recognised in the Family Takaful fund and investment linked funds.

Contributions are recognised as soon as the amount of contributions can be reliably measured. Initial contribution is recognised from inception date and subsequent contributions are recognised on due dates.

Contributions of investment-linked funds are in respect of the net creation of units which represent contributions paid by participants as payment for new certificates or subsequent payments to increase the amount of their certificate. Net creation of units is recognised on a receipt basis.

Benefits, claims and expense

Benefits and claims that are incurred during the financial year are recognised when a claimable event occurs and/or the takaful operator is notified.

Recoveries on retakaful claims are accounted for in the same financial year as the original claims are recognised.

Benefits and claims arising on Family Takaful certificates, including settlement costs, are accounted for using the case basis method and for this purpose the benefits payable under a Family Takaful certificate are recognised as follows:

(i) Maturity or other certificate benefit payments due on specified dates are treated as claims payable on the due dates;
(ii) Death, surrender and other benefits without due dates are treated as claims payable, on the date of receipt of intimation of death of the participant or occurrence of contingency covered.

The benefits payable under investment-linked business are in respect of net creation of units and are recognised as surrenders.

Family Takaful contract liabilities

These liabilities comprise claims liabilities, actuarial liabilities, unallocated surplus and AFS fair value reserves.

(i) Claims liabilities

The amounts payable under a Family Takaful certificate in respect of benefits and claims including settlement costs, are accounted for using the case-by-case method as set out above under benefits, claims and expenses.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(n) Family Takaful contracts (continued)

(ii) Unallocated surplus

Unallocated surplus represents remaining underwriting surplus less certain percentage of surplus set aside for contingency reserve in the participants' special account that may be donated to charitable organisations selected by the Company subject to the approval of the Operator's Shariah Advisory Committee.

(iii) Actuarial liabilities

Actuarial liabilities are recognised when contracts are entered into and contributions are charged.

Actuarial liabilities as determined by the annual actuarial valuation are based on the Takaful Act, 1984.

The actuarial liabilities are derecognised when the takaful contract expires, is discharged or is cancelled.

At each reporting date, liability adequacy tests are performed to ensure the adequacy of the actuarial liabilities. In performing these tests, current best estimates of future contractual cashflows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. These liabilities are based on best estimate assumptions and with due regard to significant recent experience. An appropriate allowance for provision of risk margin for adverse deviation from expected experience is made in the valuation of these liabilities.

Any deficiency is immediately charged to profit or loss and by subsequently establishing a provision for losses arising from liability adequacy tests. Impairment losses resulting from liability adequacy testing can be reversed in future years if the impairment no longer exists.

(iv) Available-for-sale reserve

Fair value gains and losses of AFS financial assets of the Family Takaful fund are reported as a separate component of the takaful contract liabilities until the AFS financial assets are derecognised or the financial assets are determined to be impaired.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(o) General Takaful contracts

General Takaful fund

The General Takaful fund is maintained in accordance with the requirements of the Takaful Act, 1984 and consists of participants' account and participants' special account. Participants' account represents the proportion of contributions set aside for the purpose of investment. Participants' special account represents the accumulated participants' share in the net surplus of the General Takaful revenue account, distributable in accordance with the terms and conditions prescribed by the Shariah Committee of the Company.

Any deficit in the participants' special account will be made good by the Shareholders' fund via a benevolent loan or Qardh.

Contribution income

Contributions are recognised in a financial year in respect of risks assumed during that particular financial year. Contributions from direct business are recognised during the financial year upon the issuance of debit notes. Contributions in respect of risks incepted for which debit notes have not been raised as of the balance sheet date are accrued at that date.

Claims and expenses

Claims and loss adjustment expenses are charged to profit or loss as incurred based on the estimated liabilities for compensation owed to certificate holders or third parties damaged by the certificated holders. They include direct and indirect claims settlements costs and arise from events that have occurred up to the end of the reporting period even if they have not yet been reported to the Company.

General Takaful contracts liabilities

General Takaful contracts liabilities are recognised when contracts are entered into and contributions are charged. These liabilities comprise of unearned contribution reserves and claims liabilities.

(i) Unearned contribution reserves

Unearned contribution reserves ("UCR") represent the portion of net contributions of takaful certificates written that relate to the unexpired period of the certificates at the end of the financial year. In determining the UCR at date of statement of financial position, the method that most accurately reflects the actual unearned contributions is used as follows:

(1) 1/365th method for all classes of General Takaful business within Malaysia, reduced by the corresponding percentage of accounted gross direct business commissions not exceeding the limits specified by BNM.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(o) General Takaful contracts (continued)

(i) Unearned contribution reserves (continued)

(2) Time apportionment method for non-annual certificates with certificate cover period of more than one year, reduced by the corresponding percentage of accounted gross direct business commissions to the corresponding contribution, not exceeding the limits specified by BNM.

At each reporting date, the Company reviews its unexpired risks and a liability adequacy test is performed to determine whether there is any overall excess of expected claims over unearned contribution. This calculation uses current estimates of future contractual cash flows (taking into consideration current loss ratios) after taking account of the investment return expected to arise on assets relating to the relevant General Takaful technical provisions. If these estimates show that the carrying amount of the unearned contribution less related deferred acquisition costs is inadequate, the deficiency is recognised in profit or loss by setting up a provision for liability adequacy. In respect of claims liabilities, the liability adequacy test has been in-built in the estimation of claims liabilities and hence no separate assessment is to be carried out.

(ii) Claims liabilities

Claims liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the date of the statement of financial position, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these claims cannot be known with certainty at the date of the statement of financial position. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques based on empirical data and current assumptions. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

(p) Other revenue recognition

Investment income is recognised on a time proportion basis taking into account the the effective yield of the asset.

Investment profit of Family Takaful and General Takaful funds is shared by the participants and the Shareholders' fund at an agreed percentage, in accordance with the principles of Mudharabah basis as approved by the Company's Shariah Committee and agreed between the participants and the Company.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(q) Foreign currencies

(i) Functional and presentation currencies

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Ringgit Malaysia, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency translations are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting in the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss of respective funds.

(r) Contingent liabilities and contingent assets

The Company does not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Company or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Company. The Company does not recognise contingent assets but discloses their existence where inflows of economic benefits are probable, but not virtually certain.

(s) Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each date of the statement of financial position and adjusted to reflect the current best estimate.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Significant accounting judgements, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future. These factors could include:

(a) Critical judgements made in applying the Company's accounting policies

In determining and applying accounting policies, judgement is often required in respect of items where choice of specific policy could materially affect the reported results and financial position of the Company. However, the Directors are of the opinion that there are currently no accounting policies which require significant judgement to be exercised.

(b) Key sources of estimation uncertainty and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

(i) <u>Claims liabilities of General Takaful business</u>

For the financial year ended 30 June 2011, the claims estimates have been computed by an independent actuarial firm, Actuarial Partners Consulting Sdn Bhd ("Actuarial Partners"). Actuarial Partners had considered the Ultimate Loss Ratio ("ULR") method for the claims estimates given the fact that the Company only has five years of operations and hence is limited in its choice of method. The method requires a selected ULR to be applied to the net earned contribution in order to project the amount of ultimate claims incurred for each loss year. The claims incurred for known claims is then subtracted from the projected ultimate claims incurred for each loss year in order to estimate the amount of claims to be incurred.

Assumptions regarding the ULR vary by class of business and, in general, take into account the following:

(i) The Company's claims incurred development to-date;
(ii) Net contribution remaining after deducting wakalah fee; and
(iii) The industry loss experience.

Details of key assumptions used and the related sensitivity analysis are shown in Note 30(b).

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Significant accounting judgements, estimates and assumptions (continued)

(ii) <u>Actuarial liabilities for Family Takaful fund</u>

Actuarial liabilities as determined by the annual actuarial valuation are based on the Takaful Act, 1984.

For Family Takaful plans, the actuarial liabilities are determined by the Company's Appointed Actuary and were set up based on the unearned contribution reserve basis in which the proportion is equivalent to the ratio of the period from the valuation date to the period of next Tabarru' dripping period and the period of cover provided by risk charges recognised.

The following methodology is used in determining the unearned contribution reserve:

For long term liabilities, which currently consist of Mortgage Reducing Term Takaful policies, the cash flow reserves are set up for mortality benefits on a best estimate basis, which results in reserves being equal to a proportion of the risk charges, for unexpired risk or unearned contribution. Cash flow reserves for future expenses are not set up as management expenses and commissions are paid from the Shareholders' fund.

Details of key assumptions used and the sensitivity analysis are shown in Note 30(a).

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Changes in accounting policies and effects arising from adoption of new and revised FRSs and Issues Committee Interpretations ("IC Interpretations")

(i) The new accounting standards, amendments and improvements to published standards that are effective and applicable for the Company's financial year beginning on or after 1 July 2010 are as follows:

- FRS 1 (revised) "First-time Adoption of Financial Reporting Standards" and the related Amendments
- Amendment to FRS 2 "Share-based Payment"
- FRS 4 "Insurance Contracts"
- Amendments to FRS5 "Non-current Assets Held for Sale and Discontinued Operations"
- FRS 7 "Financial Instruments: Disclosures" and the related Amendments
- FRS 101 (revised) "Presentation of Financial Statements"
- FRS 127 (revised) "Consolidated and Separate Financial Statements"
- Amendments to FRS 132 "Financial Instruments: Presentation"
- Amendments to FRS 138 "Intangible Assets"
- FRS 139 "Financial Instruments: Recognition and Measurement" and the related Amendments
- IC Interpretation 9 "Reassessment of Embedded Derivatives" and the related Amendments
- Improvements to FRSs (2009)

The adoption of the above new accounting standards, amendments and improvements to published standards does not have any significant impact to the financial statements of the Company except as stated below:

FRS 4: Insurance Contracts

FRS 4 requires the classification of policies issued by an insurer to be classified as insurance contract or investment contract. It also requires unbundling and separate measurement of deposit component bundled in an insurance contract, if certain conditions are met. This is because the deposit component is subject to financial risk, rather than insurance risk, hence should be included in the scope of FRS 139. In addition, this FRS requires extensive disclosures to allow the users of financial statements to understand the measurement bases adopted, the materiality of the reported amounts arising from insurance contracts and the factors that affect the uncertainty of amount and timing of the cash flows arising from insurance and reinsurance contracts.

FRS 7: Financial Instruments: Disclosures

FRS 7 introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation to Company's financial instruments. FRS 7 does not require comparative disclosures when the standard is first applied.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Changes in accounting policies and effects arising from adoption of new and revised FRSs and Issues Committee Interpretations ("IC Interpretations") (continued)

(i) The new accounting standards, amendments and improvements to published standards that are effective and applicable for the Company's financial year beginning on or after 1 July 2010 are as follows: (continued)

FRS 101: (Revised) Presentation of Financial Statements

FRS 101 (revised) prohibits the presentation of items of income and expenses (that is, "non-owner changes in equity") in the statement of changes in equity, requiring non-owner changes in equity to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Company presents all owner changes in equity in the statement of changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. As the changes in accounting policy only impacts presentation aspects, there is no impact on the Company's results.

FRS 139: Financial Instruments: Recognition and Measurement

FRS 139 establishes the principles for the recognition, derecognition and measurement of an entity's financial instruments and for hedge accounting. The adoption of FRS 139 has resulted in a change in the accounting policy relating to the classification and measurement of financial assets of the Company. FRS 139 is applied prospectively upon first application of the standard, following the transitional provision of the said standard; hence the comparatives are not restated. The financial impact of adopting FRS 139 to the financial assets of the Company is disclosed in Note 3 to the financial statements.

(ii) The following accounting standards, amendments and interpretations have been issued by the Malaysian Accounting Standards Board but are not yet effective for the Company:

FRSs/Interpretations	Effective date
Amendments to FRS 1 "First Time Adoption of Financial Reporting Standards"	1 January 2011
Amendments to FRS 2 "Group Cash-settled Share-based Payment Transactions"	1 January 2011
Amendments to FRS 7 "Financial Instruments: Disclosure"	1 January 2011
IC Interpretation 4 "Determining Whether an Arrangement contains a Lease"	1 January 2011
IC Interpretation 18 "Transfers of Assets from Customers"	1 January 2011
IC Interpretation 19 "Extinguishing Financial Liabilities with Equity Instruments"	1 July 2011
Amendments to IC Interpretation 14 "FRS 119 - The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction"	1 July 2011
FRS 124 (revised) "Related Party Disclosures"	1 January 2012
IC Interpretation 15 "Agreements for the Construction of Real Estates"	1 January 2012

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

The adoption of the above revised standards, amendments and interpretations is not expected to have any significant financial impact to the financial statements of the Company.

(a) FRS 4: Insurance Contracts

FRS 4 prohibits offsetting of income and expenses from retakaful contracts against the income or expenses from the related takaful contracts and offsetting of retakaful assets against the related takaful contract liabilities. Following the adoption of FRS 4, retakaful assets are required to be presented on gross basis. The impact on adoption of FRS 4 on the Company's statement of financial position set out in note 3(c) to the financial statements.

Arising from the requirement of FRS 4 to perform a liability adequacy test on the Company's recognised takaful liabilities, the Company has made a provision for expense liabilities in the Shareholders' fund. This change in accounting policy has been applied retrospectively and the impact to the Company's statement of financial position is shown in Note 3(c) to the financial statements.

In addition, the adoption of FRS 4 has also resulted in a change in accounting policy relating to the impairment loss on takaful receivables. Prior to 1 July 2011, an allowance was made for any contributions, including agents' and retakaful operators' balances, which remained outstanding for more than six months from the date on which they became receivable, except for outstanding motor contributions for which an allowance was made for amounts outstanding for more than 30 days.

Upon the adoption of FRS 4, if there is objective evidence that the takaful receivables are impaired, the Company reduces the carrying amount of the takaful receivables accordingly and recognises the impairment loss in the profit or loss. The objective evidence of impairment is deemed to exist where the takaful receivables is past due for more 90 days or 3 months. The effects of this change in accounting policy on impairment have no significant impact to the prior years' financial results and hence have been reflected in the current financial year.

Upon adoption of FRS 4, the statement of financial position and statement of comprehensive income of Family Takaful comprised the related balances of Family Takaful fund and investment-linked fund. Accordingly the comparatives for 2010 and 2009 have been reclassified to conform with the current presentation.

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) FRS 139: Financial Instruments: Recognition and Measurement

Prior to the adoption of FRS 139 on 1 July 2011, investments of the Company were accounted for under the following accounting polices:

Islamic corporate debentures

Islamic corporate debentures which are secured or which carry a minimum rating of “BBB” or “P3” were stated at cost adjusted for amortisation of premiums or accretion of discounts, calculated on a constant yield basis, from the date of purchase to maturity date. The amortisation of premiums and accretion of discounts were recognised in profit or loss of the respective funds.

Quoted investments

Quoted investments were stated at the lower of cost and market value determined on an aggregate portfolio basis by category of investments except that if diminution in value of a particular investment was not regarded as temporary, allowance was made against the value of that investment. Market value was determined by reference to the stock exchange closing price the date of the statement of financial position.

Unquoted investments

Unquoted investments were stated at cost and an allowance for diminution in value was made where, in the opinion of the Directors, there was a decline other than temporary in the value of such investments. Where there has been a decline other than temporary in the value of an investment, such a decline was recognised as an expense in the financial year in which the decline is identified.

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) FRS 139: Financial Instruments: Recognition and Measurement (continued)

Investment-linked business

Quoted investments of investment-linked business, were stated at closing market prices as the date of the statement of financial position.

Unquoted islamic corporate debentures were stated at average indicative market prices quoted by at least two licensed financial institutions.

Structured investments were carried at fair values quoted by counter parties based on a specific valuation model as at the date of statement of financial statements.

Structured investments are investments where a substantial amount of the fund is invested in fixed income instruments issued by financial institutions while the remaining amount is invested in instruments which are linked to the performance of one or more equity, commodity and/or currency indices and market prices that introduce certain risks that will affect the performance of these instruments.

Any increase or decrease in value of these investments was recognised in the investment-linked business revenue account.

Pursuant to the adoption of FRS 139, the Company has changed its accounting policies in relation to the measurement basis of its investments. This change in accounting policies in respect of the Company's financial assets, as described in the summary of accounting policies in Note 2.2(c) to the financial statements, have been applied prospectively by adjusting the opening balances as at 1 July 2011 as shown in Note 3(c) to the financial statements.

A summary of the impact of the new accounting standards, amendments and improvements to published standards and interpretations on the financial statements of the Company is set out in Note 3(c) to the financial statements.

The notes to the financial statements for the statement of financial position as at 30 June 2009 arising from the changes in accounting policies above have been also been shown where they are affected by such changes.

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(c) Effects of adoption of new accounting policies (continued)

	Statements of financial position			
	As previously reported	Change in accounting policy		Restated
		FRS 139	FRS 4	
	RM'000	RM'000	RM'000	RM'000
	Dr/(Cr)	Dr/(Cr)	Dr/(Cr)	Dr/(Cr)
At 1 July 2010/30 June 2010				
Shareholders' fund				
Investments	93,982	880	-	94,862
Deferred tax liabilities (Note 16)	-	(144)	-	(144)
Available-for-sale reserve	-	(431)	-	(431)
Accumulated losses	5,342	(305)	247	5,284
Deferred wakalah income	-	-	(247)	(247)
General Takaful fund				
Investments	2,719	19	-	2,738
Takaful contract liabilities				
- Provision for outstanding claims and unearned contribution reserve	(6,815)	-	(5,737)	(12,552)
- Available-for-sale reserve (Note 13)(b)(iii)	-	(19)	-	(19)
Retakaful assets	-	-	5,737	5,737
Family Takaful fund				
Investments	25,224	223	-	25,447
Takaful contract liabilities				
- Available-for-sale reserve (Note 13)(a)(iii)	-	(223)	-	(223)
- Actuarial liabilities	(243,234)		(21,270)	(264,504)
- Outstanding claims	(74)	-	(371)	(445)
- Unallocated surplus	(1,515)	-	725	(790)
Retakaful assets	-	-	20,916	20,916
At 30 June 2009				
Shareholders' fund				
Accumulated losses	3,878	-	128	4,006
Deferred wakalah fee	(209)	-	(128)	(337)
General Takaful fund				
Takaful contract liabilities (Note 13)	(1,625)	-	(2,990)	(4,615)
Retakaful assets (Note 10)	-	-	2,990	2,990
Family Takaful fund				
Takaful contract liabilities (Note 13)	(213,762)	-	(13,670)	(227,432)
Retakaful assets (Note 10)	-	-	13,670	13,670

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(c) Effects of adoption of new accounting policies (continued)

	Income Statement for financial year ended 30 June 2010			
	As previously reported	Change in accounting policy FRS 139	Change in accounting policy FRS 4	Restated
	RM'000 Dr/(Cr)	RM'000 Dr/(Cr)	RM'000 Dr/(Cr)	RM'000 Dr/(Cr)
Shareholders' fund				
Wakalah fee	10,419	-	(119)	10,300
General Takaful fund				
Other operating expenses				
- Impairment of takaful receivables	-	-	(415)	(415)

	Increase for the financial year 30 June 2011
	RM'000
Shareholders' Fund	
Wakalah income	977

	Decrease in balances at 30 June 2011
	RM'000
Shareholders' Fund	
Financial assets – available-for-sale	(2,652)
Deferred tax liabilities	(663)
Accumulated losses	(1,224)
Available-for-sale reserves	(1,989)
Deferred wakalah	(1,224)
General Fund	
Financial assets – available-for-sale	(28)
Takaful receivables	(415)
Takaful contract liabilities	
- Provision for outstanding claims and unearned contribution reserves	(25,539)
- Available-for-sale reserves	(28)
- Participants' accounts	(415)
Retakaful assets	(25,539)

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(c) Effects of adoption of new accounting policies (continued)

	Decrease in balances at 30 June 2011 (continued)
	RM'000
Family Fund	
Financial assets – available-for-sale	(369)
Takaful contract liabilities	
- Available-for-sale reserves	(369)
- Actuarial liabilities	(32,122)
- Outstanding claims	(2,063)
- Unallocated surplus	1,113
Retakaful assets	(33,072)

4 PROPERTY AND EQUIPMENT

Shareholders' fund

	Computer equipment RM'000	Furniture & fittings, office equipment and renovation RM'000	Motor vehicles RM'000	Work-in-progress RM'000	Total RM'000
2011					
Cost					
At 1 July 2010	498	1,083	273	-	1,854
Additions	62	63	147	57	329
At 30 June 2011	560	1,146	420	57	2,183
Accumulated depreciation					
At 1 July 2010	298	498	67	-	863
Charge for the financial year	105	222	28	-	355
At 30 June 2011	403	720	95	-	1,218
Net book value	157	426	325	57	965

4 PROPERTY AND EQUIPMENT (CONTINUED)

Shareholders' fund (continued)

	Computer equipment RM'000	Furniture & fittings, office equipment and renovation RM'000	Motor vehicles RM'000	Work-in-progress RM'000	Total RM'000
2010					
Cost					
At 1 July 2009	443	731	273	-	1,447
Additions	55	352	-	-	407
At 30 June 2010	498	1,083	273	-	1,854
Accumulated depreciation					
At 1 July 2009	203	329	43	-	575
Charge for the financial year	95	169	24	-	288
At 30 June 2010	298	498	67	-	863
Net book value	200	585	206	-	991

5 INTANGIBLE ASSETS

Shareholders' fund

	Computer software	
	2011 RM'000	2010 RM'000
Cost		
At 1 July	2,537	2,408
Additions	25	129
At 30 June	2,562	2,537
Accumulated amortisation		
At 1 July	1,560	1,072
Amortisation charge for the financial year	512	488
At 30 June	2,072	1,560
Net book value		
At 30 June	490	977

6 INVESTMENTS

Prior to the adoption of FRS 139 on 1 July 2010, investments of the Company were accounted for based on the previous accounting policies as set out in Note 3(b) to the financial statements.

	2011		2010	
	Carrying value	Market value	Carrying value	Market value
	RM'000	RM'000	RM'000	RM'000
(a) **Shareholders' fund**				
Quoted in Malaysia:				
Equity securities of corporations, at cost	-		2,800	
Allowance for diminution in value	-		(305)	
	-	-	2,495	2,495
Unquoted:				
Government guaranteed debt securities, at cost			9,006	
Government investment issues, at cost			4,320	
Islamic debt securities, at cost			50,036	
Accretion of discount	-		216	
	-	-	63,578	64,458
Unit-linked funds (seed money), at cost	-		4,000	
Deposits and money market placements with licensed banks	-		23,909	
Total investments	-		93,982	

6 INVESTMENTS (CONTINUED)

	2011 Carrying value RM'000	2011 Market value RM'000	2010 Carrying value RM'000	2010 Market value RM'000
(b) General Takaful fund				
Unquoted:				
Government guaranteed debt securities, at cost	-		100	
Government investment Issues, at cost	-		1,499	
Islamic debt securities, at cost	-		610	
	-	-	2,209	2,228
Deposits and money market placements with licensed banks	-		510	
Total investments	-		2,719	
(c) Family Takaful fund				
Non investment-linked fund				
Unquoted:				
Government guaranteed debt securities, at cost			900	
Government investment Issues, at cost	-		12,995	
Islamic debt securities, at cost	-		5,426	
Accretion of discounts	-		23	
	-	-	19,344	19,567
Deposits and money market placements with licensed banks	-		5,880	
Total investments of non Investment-linked fund	**-**		**25,224**	

6 INVESTMENTS (CONTINUED)

	2011 Carrying value RM'000	2010 Carrying value RM'000
Investment-linked fund		
Quoted in Malaysia:		
Equity securities of corporations, at cost	-	174
Unrealised capital loss	-	(51)
At fair value	-	123
Unquoted:		
Government investment issues, at cost	-	1,580
Unrealised capital loss	-	(60)
At fair value	-	1,520
Unquoted:		
Islamic debt securities, at cost	-	3,327
Unrealised capital gain/(loss)		57
At fair value	-	3,384
Structured investments, at cost	-	207,895
Unrealised capital loss	-	(623)
At fair value	-	207,272
Deposits and money market placements with licensed banks	-	5,195
Total investments of investment-linked fund	**-**	**217,494**
Total invesments of Family Takaful fund	**-**	**242,718**

6 INVESTMENTS (CONTINUED)

The maturity structure of Government guaranteed securities, Islamic debt securities, structured investments and deposit and money market placements with licensed banks above is as follows:

	Shareholders' fund	General Takaful fund	Family Takaful fund		Total
			Non investment-linked fund	Investment-linked fund	
	RM'000	RM'000	RM'000	RM'000	RM'000
2010					
Investments maturing within 12 months	30,964	510	5,880	146,970	184,324
Investments maturing after 12 months	56,523	2,209	19,344	70,401	148,477
Total	87,487	2,719	25,224	217,371	332,801

Pursuant to the adoption of FRS 139 on 1 July 2010, the investments of the Company have been reclassified in accordance with the accounting policies as set out in Note 2.2(c) to the financial statements.

7 FINANCIAL ASSETS

2011	Shareholders' fund RM'000	General Takaful fund RM'000	Family Takaful fund RM'000
Government investment issues	4,118	1,521	14,718
Islamic bonds	55,966	713	12,430
Equity securities	5,312	-	1,206
Investments in investment-linked funds	4,000	-	-
Structured investments	-	-	76,961
Total	69,396	2,234	105,315

7 FINANCIAL ASSETS (CONTINUED)

The Company's financial assets are summarised as follows:

	Shareholders' fund RM'000	General Takaful fund RM'000	Family Takaful fund RM'000
AFS	69,396	2,234	23,225
FVTPL – designated upon initial recognition	-	-	82,090
Total	69,396	2,234	105,315

The following financial assets mature within 12 months:

	Shareholders' fund RM'000	General Takaful fund RM'000	Family Takaful fund RM'000
AFS	8,557	-	2,514
FVTPL – designated upon initial recognition	-	-	1,008
	8,557	-	3,522

(a) AFS

Equity securities quoted in Malaysia	5,312	-	1,034
Government investment issues	4,118	1,521	13,182
Islamic bonds	55,966	713	9,009
Investments in investment-linked funds	4,000	-	-
Total	69,396	2,234	23,225

(b) FVTPL – Designated upon initial recognition

Equity securities quoted in Malaysia	-	-	172
Government investment issues	-	-	1,536
Islamic bonds	-	-	3,421
Structured investments	-	-	76,961
Total	-	-	82,090

7 FINANCIAL ASSETS (CONTINUED)

(c) Carrying values of financial investments

	Available-for-sale			Designated
	Shareholders' fund	General Takaful fund	Family Takaful fund	Family Takaful fund
	RM'000	RM'000	RM'000	RM'000
At 1 July 2010	70,073	2,209	19,344	212,299
Effect of adoption of FRS139	880	19	223	-
Purchases	4,610	-	3,690	-
Maturities	(7,000)	-	-	(140,168)
Disposals	(1,201)	-	(194)	-
Fair value gains/(losses) recorded in:				
Profit or loss	(365)	-	-	-
Other comprehensive income	2,077	-	-	-
Takaful contract liabilities	-	9	170	9,959
Accretion/(amortisation) adjustments	322	(3)	(8)	-
At 31 June 2011	69,396	2,234	23,225	82,090

FRS 139 is applied prospectively upon first application of the standard, following the transitional provsion of the said standard, hence the comparatives are not restated

As at 30 June 2011, impairment provision of impaired available-for-sale financial assets of RM758,250 is RM365,000. A reconciliation of the allowance for impairment losses for available-for-sale financial assets is as follows:

	Shareholders' fund
	2011
	RM'000
At 1 July	-
Charge for the financial year	365
At 30 June	365

7 FINANCIAL ASSETS (CONTINUED)

(d) Fair values of financial assets

The following table shows the financial assets recorded at fair value analysed by the different basis of fair values as follows:

	AFS	Designated	Total
	RM'000	RM'000	RM'000
Shareholders' fund			
Quoted market price	5,312	-	5,312
Valuation techniques			
- Market observable inputs	60,084	-	60,084
- Non-market observable inputs	4,000	-	4,000
	69,396	-	69,396
General Takaful fund			
Valuation techniques			
- Market observable inputs	2,234	-	2,234
Family Takaful fund			
Quoted market price	1,034	172	1,206
Valuation techniques			
- Market observable inputs	22,191	81,918	104,109
	23,225	82,090	105,315

Included in the quoted price category are financial instruments that are measured in whole or in part by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, secondary market via dealer and broker, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Financial instruments measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions are instruments for which pricing is obtained via pricing services. Where prices have not been determined in an active market, instruments with fair values are based on broker quotes, investment in unit and property trusts with fair values are obtained via fund managers and instruments that are valued using the Company's own models whereby the majority of assumptions are market observable.

8 LOANS AND RECEIVABLES

	Shareholders' fund	General Takaful fund	Family Takaful fund
	RM'000	RM'000	RM'000
2011			
Fixed and cash deposits with licensed financial institutions	26,274	14,845	15,313
Receivables within 12 months	26,274	14,845	15,313

FRS 139 is applied prospectively upon first application of the standard, following the transitional provsion of the said standard, hence the comparatives are not restated

9 TAKAFUL RECEIVABLES

	General Takaful fund RM'000	Family Takaful fund RM'000
2011		
Outstanding contributions including agents, brokers and co-takaful balances	18,575	4,532
Less: Allowance for impairment	(6,006)	-
	12,569	4,532
Amount due from retakaful operators	1,016	1,346
Less: Allowance for impairment	(697)	-
	319	1,346
	12,888	5,878
2010		
Outstanding contributions including agents, brokers and co-takaful balances	9,250	857
Amount due from retakaful operator	-	828
	9,250	1,685
Less: Allowance for impairment	(1,053)	-
	8,197	1,685

10 RETAKAFUL ASSETS

	General Takaful fund RM'000	Family Takaful fund RM'000
2011		
Retakaful of Takaful contracts	25,539	33,072
2010		
Retakaful of Takaful contracts	5,737	20,916
2009		
Retakaful of Takaful contracts	2,990	13,670

11 OTHER RECEIVABLES

	Shareholders' fund RM'000	General Takaful fund RM'000	Family Takaful fund RM'000
2011			
Profit and dividend receivables	252	36	545
Due from Shareholders' fund	-	4,066	
Due from General Takaful fund	-	-	4
Due from Family Takaful fund	936	-	-
Other receivables	286	45	3
	1,474	4,147	552
Qardh			
General Takaful fund, at cost	6,699	-	-
	8,173	4,147	552
2010			
Profit and dividend receivables	469	52	270
Due from Family Takaful fund	436	-	-
Amount due from Shareholders' fund	-	1,271	-
Other receivables	279	-	93
	1,184	1,323	363
Qardh			
General Takaful fund, at cost	1,812	-	-
	2,996	1,323	363

Qardh represents an interest-free loan to the General Takaful fund to make good the actuarial deficit and underwriting deficit in the fund. The amount is unsecured, not subject to any profit element and has no fixed terms of repayment.

Amounts due from takaful funds and Shareholders' fund are unsecured, not subject to any profit element and have no fixed terms of repayment.

12 CASH AND BANK BALANCES

Cash and cash equivalents comprise cash at bank balances:

	2011	2010
	RM'000	RM'000
Shareholders' fund	2,439	861
General Takaful fund	2,474	871
Family Takaful fund	7,376	2,730
	12,289	4,462

13 TAKAFUL CONTRACT LIABILITIES

		2011			2010		
	Note	Gross RM'000	Re-takaful RM'000	Net RM'000	Gross RM'000	Re-takaful RM'000	Net RM'000
Family Takaful	13(a)	158,031	(33,072)	124,959	265,739	(20,916)	244,823
General Takaful	13(b)	44,392	(25,539)	18,853	11,753	(5,737)	6,016
		202,423	(58,611)	143,812	277,492	(26,653)	250,839

(a) Family Takaful contract liabilities

The Family Takaful contract liabilities and its movements are further analysed as follows:

	2011			2010		
	Gross RM'000	Re-takaful RM'000	Net RM'000	Gross RM'000	Re-takaful RM'000	Net RM'000
Certificateholders' liabilities	72,941	(31,009)	41,932	50,678	(20,545)	30,133
Net asset value attributable to certificateholders	80,423	-	80,423	213,826	-	213,826
Actuarial liabilities (i)	153,364	(31,009)	122,355	264,504	(20,545)	243,959
Claims liabilities	2,327	(2,063)	264	445	(371)	74
Unallocated surplus (ii)	1,971	-	1,971	790	-	790
Available-for-sale reserve (iii)	369	-	369	-	-	-
	158,031	(33,072)	124,959	265,739	(20,916)	244,823

13 TAKAFUL CONTRACT LIABILITIES (CONTINUED)

(a) Family Takaful contract liabilities (continued)

(i) Actuarial liabilities

	Gross RM'000	Re-takaful RM'000	Net RM'000
At 1 July 2010			
- As previously stated	263,779	(20,545)	243,234
- Effect of adoption of FRS 4	725	-	725
- As restated	264,504	(20,545)	243,959
Change in certificate liabilities	21,875	(10,464)	11,411
Additional reserves for liability adequacy testing	388	-	388
Movement in net asset value attributable to certificateholders	(133,403)	-	(133,403)
At 30 June 2011	153,364	(31,009)	122,355
At 1 July 2009	226,465	(13,610)	212,855
Change in certificate liabilities	15,933	(6,935)	8,998
Additional reserves for liability adequacy testing	725	-	725
Movement in net asset value attributable to certificateholders	21,381	-	21,381
At 30 June 2010	264,504	(20,545)	243,959

13 TAKAFUL CONTRACT LIABILITIES (CONTINUED)

(a) Family Takaful contract liabilities (continued)

	Gross/Net	
	2011 RM'000	2010 RM'000
(ii) Unallocated surplus		
As at 1 July		
- As previously stated	1,515	837
- Effect of adoption of FRS 4	(725)	-
- As restated	790	837
Movement during the financial year:		
Surplus/(deficit) during the financial year	1,715	(2)
Increase in Participant's Account	(534)	(45)
Net movement	1,181	(47)
At 30 June 2011	1,971	790
(iii) Available-for-sale reserve		
As at 1 July 2010		
- As previously reported	-	-
- Effect of adoption of FRS 139 (Note 3(c))	223	-
As restated	223	-
Net fair value change during the financial year	146	-
At 30 June 2011	369	-

13 TAKAFUL CONTRACT LIABILITIES (CONTINUED)

(b) General Takaful contract liabilities

The General Takaful contract liabilities and its movements are further analysed as follows:

	2011			2010		
	Gross RM'000	Re-takaful RM'000	Net RM'000	Gross RM'000	Re-takaful RM'000	Net RM'000
Provision for claims reported by certificateholders	13,510	(8,305)	5,205	2,189	(1,087)	1,102
Provision for IBNR	7,168	(4,147)	3,021	3,561	(2,395)	1,166
Provision for outstanding claims (i)	20,678	(12,452)	8,226	5,750	(3,482)	2,268
Unearned contribution reserve (ii)	24,179	(13,087)	11,092	6,802	(2,255)	4,547
Available-for-sale reserve (iii)	28	-	28	-	-	-
Participants' accounts:						
Opening	(799)	-	(799)	(225)	-	(225)
(Deficit)/surplus arising during the financial year	(4,581)	-	(4,581)	(2,228)	-	(2,228)
Increase/(decrease) in Qardh	4,887	-	4,887	1,654	-	1,654
Closing	(493)	-	(493)	(799)	-	(799)
	44,392	(25,539)	18,853	11,753	(5,737)	6,016

13 TAKAFUL CONTRACT LIABILITIES (CONTINUED)

(b) General Takaful contract liabilities (continued)

The General Takaful contract liabilities and its movements are further analysed as follows: (continued)

	2011			2010		
	Gross RM'000	Re-takaful RM'000	Net RM'000	Gross RM'000	Re-takaful RM'000	Net RM'000
(i) Provision for outstanding claims						
At 1 July	5,750	(3,482)	2,268	1,475	(1,157)	318
Claims incurred in the current accident year	12,782	(7,511)	5,271	1,975	(668)	1,307
Other movements in claims incurred in prior accident year	5,847	(3,278)	2,569	2,944	(2,000)	944
Claims paid during the financial year	(3,701)	1,819	(1,882)	(644)	343	(301)
At 30 June	20,678	(12,452)	8,226	5,750	(3,482)	2,268
(ii) Unearned contribution reserve						
At 1 July	6,802	(2,255)	4,547	3,140	(1,833)	1,307
Contribution written in the financial year	50,592	(31,134)	19,458	16,716	(10,406)	6,310
Contribution earned during the financial year	(33,215)	20,302	(12,913)	(13,054)	9,984	(3,070)
At 30 June	24,179	(13,087)	11,092	6,802	(2,255)	4,547

(iii) Available-for-sale reserve

	2011 RM'000	2010 RM'000
As at 1 July 2010		
- As previously reported	-	-
- Effect of adoption of FRS 139 (Note 3(c))	19	-
As restated	19	-
Net fair value change during the financial year	9	-
At 30 June 2011	28	-

14 TAKAFUL PAYABLES

	General Takaful fund RM'000	Family Takaful fund RM'000
2011		
Due to agents and intermediaries	4,035	-
Due to retakaful operators and cedants	15,611	5,190
	19,646	5,190
2010		
Due to agents and intermediaries	1,358	-
Due to retakaful operators and cedants	5,061	1,507
	6,419	1,507

15 OTHER PAYABLES

	Shareholders' fund RM'000	General Takaful fund RM'000	Family Takaful fund RM'000
2011			
Contribution deposits	-	42	892
Amount due to Family Takaful fund	-	4	-
Amount due to Shareholders' fund	-	-	936
Amount due to General Takaful fund	4,066	-	-
Sundry payables and accruals	4,655	398	1,694
	8,721	444	3,522
2010			
Contribution deposits	-	432	664
Amount due to Shareholders' fund	-	-	436
Amount due to General Takaful funds	1,271	-	-
Sundry payables and accruals	3,532	243	96
	4,803	675	1,196

Amount due to General Takaful fund in the Shareholders' fund includes the interest-free loan from the Shareholders' fund to the takaful funds under Qardh principle as disclosed in Note 2.2(q).

Amounts due to takaful funds and Shareholders' fund are unsecured, not subject to any profit element and have no fixed term of repayment.

16 DEFERRED TAX ASSETS/(LIABILITIES)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes related to the same authority.

The following amounts, determined after appropriate offsets, are shown in the statements of financial position.

The movements in deferred tax balances are as follows:

	Shareholders' fund RM'000	General Takaful fund RM'000	Family Takaful fund RM'000
2011			
At 1 July			
- as previously reported	-	-	30
- effect of adoption of FRS 139	(144)	-	-
- as adjusted	(144)	-	30
Recognised in:			
Profit or loss	(195)	-	
Other comprehensive income	(519)	-	-
Takaful contract liabilities	-	1,402	(374)
At 30 June	(858)	1,402	(344)
2010			
At 1 July	-	-	(99)
Recognised in takaful contract liabilities	-	-	69
At 30 June	-	-	(30)

Presented after appropriate offsetting as follows:

	Shareholders' fund RM'000	General Takaful fund RM'000	Family Takaful fund RM'000
2011			
Deferred tax liabilities	(1,160)	-	(344)
Deferred tax assets	302	1,402	-
	(858)	1,402	(344)
2010			
Deferred tax liabilities	-	-	(234)
Deferred tax assets	-	-	264
	-	-	30

16 DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

The components and movements of deferred tax assets/(liabilities) during the financial year prior to offsetting are as follows:

	Property, plant and equipment RM'000	Financial assets RM'000	Payables RM'000	Total RM'000
Shareholders' fund				
At 1 July 2009/30 June 2010	-	-	-	-
Effect of adoption of FRS 139	-	(144)	-	(144)
At 1 July 2010	-	(144)	-	(144)
Recognised in:				
Profit or loss	(213)	(284)	302	(195)
Other comprehensive income		(519)	-	(519)
At 30 June 2011	(213)	(947)	302	(858)

	Takaful receivables RM'000	Financial assets RM'000	Unutilised tax loss and capital allowance RM'000	Total RM'000
General Takaful fund				
At 1 July 2009/1 July 2010	-	-	-	-
Recognised in:				
Takaful contract liabilities	602	-	800	1,402
At 30 June 2011	602	-	800	1,402
Family Takaful fund				
At 1 July 2009	-	99	-	99
Recognised in				
Takaful contract liabilities		(69)	-	(69)
At 30 June 2010/1 July 2010	-	30	-	30
Recognised in:				
Takaful contract liabilities	-	(374)	-	(374)
At 30 June 2011	-	(344)	-	(344)

16 DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

The amount of unutilised tax losses for which no deferred tax asset is recognised in the statement of financial position is RM746,000 (2010: RM348,000) due to the unavailability of future taxable profits in the Operators' fund.

The deferred tax arising from the unutilised tax losses in the General Takaful fund for the current year was arrived at using the tax rate of the General Takaful fund, i.e.25% on the grounds that the unutilised tax losses will be available to offset future taxable income in the General fund.

17 SHARE CAPITAL

	2011		2010	
	No. of shares '000	RM'000	No. of shares '000	RM'000
Ordinary shares of RM1.00 each				
Authorised:				
At beginning/end of financial year	1,000,000	1,000,000	1,000,000	1,000,000
Issued and fully paid:				
At beginning/end of financial year	100,000	100,000	100,000	100,000

18 OPERATING REVENUE

	Shareholders' fund RM'000	General Takaful fund RM'000	Family Takaful fund RM'000	Total RM'000
2011				
Gross contributions	-	50,592	35,130	85,722
Investment income	3,720	184	3,127	7,031
	3,720	50,776	38,257	92,753
2010				
Gross contributions	-	16,716	46,034	62,750
Investment income	3,491	72	833	4,396
	3,491	16,788	46,867	67,146

19 INVESTMENT INCOME

	Shareholders' fund RM'000	General Takaful fund RM'000	Family Takaful fund RM'000
2011			
AFS financial assets			
Profit income	2,564	93	871
Amortisation of premiums/(accretion of discounts) – net	322	(3)	(8)
Dividend income	160	-	2
FVTPL – designated upon initial recognition			
Profit income	-	-	2,230
Dividend income	-	-	2
Loans and receivables			
Profit income	674	114	181
	3,720	204	3,278
Less:			
Share of investment profit of takaful funds with Shareholders' fund	-	(20)	(151)
	3,720	184	3,127

19 INVESTMENT INCOME (CONTINUED)

	Shareholders' fund RM'000	General Takaful fund RM'000	Family Takaful fund RM'000
2010			
Gross dividends from equity securities of companies quoted in Malaysia	57	-	1
Profits from:			
- Government guaranteed debt securities	172	54	527
- Islamic debt securities	2,237	10	335
- Deposits and money market placements with licensed banks	638	16	203
Accretion of discounts – net	181	-	10
Gain/(loss) on disposal of investments	206	-	(130)
	3,491	80	946
Less:			
Share of investment profit of takaful funds with Shareholders' fund	-	(8)	(113)
	3,491	72	833

20 REALISED GAINS/(LOSSES)

	Shareholders' fund RM'000	General Takaful fund RM'000	Family Takaful fund RM'000
2011			
AFS financial assets			
Quoted equity	37	-	24
Islamic bond	(37)	-	-
FVTPL – designated upon initial recognition			
Structured investments	-	-	1,959
	-	-	1,983

21 FAIR VALUE GAINS/(LOSSES)

	Shareholders' fund RM'000	General Takaful fund RM'000	Family Takaful fund RM'000
2011			
Impairment of AFS financial assets	(365)	-	-
Fair value gains on financial assets designated at fair value through profit or loss	-	-	8,000
	(365)	-	8,000
2010			
Impairment of AFS financial assets	-	-	-
Fair value gains on financial assets designated at fair value through profit or loss	-	-	720
	-	-	720

22 OTHER OPERATING INCOME/(EXPENSES)

	Shareholders' fund RM'000	General Takaful fund RM'000	Family Takaful fund RM'000
2011			
Other operating income:			
Other income	166	-	-
Other operating expenses:			
Impairment of takaful receivables	-	(5,650)	-
Others	-	-	(165)
	-	(5,650)	(165)

22 OTHER OPERATING INCOME/(EXPENSES) (CONTINUED)

	Shareholders' fund RM'000	General Takaful fund RM'000	Family Takaful fund RM'000
2010			
Other operating income:			
Allowance for diminution in value	349	18	-
Other income	11	-	-
	360	18	-
Other operating expenses:			
Impairment of takaful receivables	-	(966)	-
Others	-	-	(45)
	-	(966)	(45)

23 MANAGEMENT EXPENSES

	2011 RM'000	2010 RM'000
Shareholders' fund		
Staff costs:		
Salary and bonus	5,672	3,786
Social security costs	38	23
Employees' provident fund	707	435
Other staff related expenses	153	304
Directors' fees	155	156
Shariah committee remuneration and other expenses	139	108
Depreciation of property, plant and equipment (Note 4)	355	288
Amortisation of intangible assets (Note 5)	512	488
Auditors' remuneration		
Statutory audit	140	80
Other professional fee	506	343
Rental of properties	648	498
Shared services fee	959	532
PIDM levy	250	-
Other expenses	2,813	2,956
Total	13,047	9,997

The remuneration, including benefits-in-kind, attributable to the Chief Executive Officer of the Company during the financial year amounted to RM617,511 (2010: RM588,997).

Included in the staff costs are the remuneration for key management personnel, which is disclosed in Note 28.

24 TAXATION

	Shareholders' fund RM'000	General Takaful fund RM'000	Family Takaful fund RM'000
2011			
Current tax	-	-	511
Deferred tax	195	(1,402)	374
	195	(1,402)	885
2010			
Current tax			
Foreign tax	-	-	86
Deferred Tax	-	-	68
	-	-	154

The income tax for the Shareholders' and General Takaful funds are calculated based on the tax rate of 25% (2010: 25%) of the estimated assessable profit for the financial year. The income tax for the Family Takaful fund is calculated based on tax rate of 8% (2010: 8%) of the assessable investment income net of allowable deductions for the financial year.

The numerical reconciliation between taxation and the product of accounting profit multiplied by the Malaysian tax rate:

	2011 RM'000	2010 RM'000
Loss before taxation	(211)	(960)
Taxation at Malaysian statutory rate of 25% (2010: 25%)	(52)	(240)
Tax effects of expenses not deductible for tax purposes	247	266
Current year unrecognised tax losses	-	31
Deductible temporary difference not recognised	-	(57)
Tax expense for the financial year	195	-

24 TAXATION (CONTINUED)

The amount of deductible temporary differences, unutilised capital allowances and tax losses for which no deferred tax asset is recognised in the balance sheet is as follows:

	Shareholders' fund RM'000	General Takaful fund RM'000	Family Takaful fund RM'000
2011			
Unutilised tax losses	746	-	-
2010			
Deductible temporary differences	93	1,054	-
Unutilised capital allowances	-	215	1,320
Unutilised tax losses	255	1,261	-
	348	2,530	1,320

25 INVESTMENT-LINKED BUSINESS

(a) Assets and liabilities as at 30 June

	2011 RM'000	2010 RM'000
Assets		
Investments	-	217,494
Fair value through profit and loss financial assets	82,090	-
Loans and receivables	2,315	-
Amount due from Shareholders' fund	162	169
Deferred tax assets	-	30
Other receivables	77	49
Cash and bank balances	176	-
Investment-linked business assets	84,820	217,742

25 INVESTMENT-LINKED BUSINESS (CONTINUED)

(a) Assets and liabilities as at 30 June (continued)

	2011 RM'000	2010 RM'000
Liabilities		
Deferred tax liabilities	344	-
Amount due to Family Takaful fund	4,053	3,916
Investment-linked business liabilities	4,397	3,916
Net asset value of funds	80,423	213,826
Represented by:		
Unitholders' account		
At beginning of the financial year	213,826	192,445
Net creation of units	4,244	24,620
Cancellation of units	(146,984)	(3,944)
Distribution to certificateholders	(1,679)	-
Surplus for the financial year	11,016	705
	80,423	213,826

(b) Income and expenses for the financial year ended 30 June

	2011 RM'000	2010 RM'000
Investment income*	2,102	251
Realised gain/(loss) on disposal of investment	1,959	(130)
Fair value gain on investments	8,000	720
Other expenses	(165)	(69)
Surplus before taxation	11,896	772
Taxation:		
- current tax	(506)	-
- deferred tax	(374)	(68)
	11,016	704

* Net of share of investment profit of takaful with Shareholders' fund of RM36,000 (2010: RM34,000).

26 SEGMENTAL INFORMATION ON CASH FLOW

	Shareholders' fund RM'000	General Takaful fund RM'000	Family Takaful fund RM'000	Total RM'000
2011				
Cash flows from:				
Operating activities	1,932	1,603	4,646	8,181
Investing activities	(354)	-	-	(354)
	1,578	1,603	4,646	7,827
Net increase in cash and cash equivalents	1,578	1,603	4,646	7,827
Cash and cash equivalents:				
At beginning of financial year	861	871	2,730	4,462
At end of financial year	2,439	2,474	7,376	12,289
2010				
Cash flows from:				
Operating activities	763	813	1,362	2,938
Investing activities	(536)	-	-	(536)
	227	813	1,362	2,402
Net increase in cash and cash equivalents	227	813	1,362	2,402
Cash and cash equivalents:				
At beginning of financial year	634	58	1,368	2,060
At end of financial year	861	871	2,730	4,462

27 RELATED PARTY TRANSACTIONS

The related parties of, and their relationship with the Company, are as follows:

Related Parties	Relationship
Hong Leong Company (Malaysia) Berhad	Ultimate holding company
HLA Holdings Sdn Bhd	Immediate holding company
Mitsui Sumitomo Insurance Corporation, Japan	Substantial Shareholder of the Company
Hong Leong Assurance Berhad	Subsidiary of immediate holding company
Hong Leong Bank Berhad	Subsidiary of ultimate holding company
Hong Leong Islamic Bank Berhad	Subsidiary of ultimate holding company

The Directors are of the opinion that related party transactions were entered into in the normal course of business and have been established on terms and conditions that are no more favourable than those obtainable in similar transactions with unrelated parties unless otherwise stated.

Significant related party transactions with related parties during the financial year are as follows:

	2011 RM'000	2010 RM'000
Transactions with companies within the Hong Leong Company (Malaysia) Berhad Group:		
- Commission expenses	(1,597)	(1,971)
- Profit from Islamic deposits and money market placements with licensed banks	1,135	827
- Profit from Islamic corporate debentures	253	62
- Office rental expenses	(725)	(497)
- Shared services fee	(959)	(532)
- Other expenses	-	(205)

Companies within the Hong Leong Company (Malaysia) Berhad Group include Hong Leong Bank Berhad, Hong Leong Islamic Bank Berhad and Hong Leong Assurance Berhad where there were related party transactions.

27 RELATED PARTY TRANSACTIONS (CONTINUED)

Included in the balance sheet of the Company are significant related party balances, represented by the following:

	2011 RM'000	2010 RM'000
Amount due from/(to) other related companies within the Hong Leong Company (Malaysia) Berhad Group:		
- Bank balances	10,943	2,785
- Structured investments, at fair value (Note 6 & 7)	24,274	23,699
- Islamic deposits and money market placements with licensed banks (Note 6 & 7)	50,759	34,652
- Islamic corporate debentures (Note 6 & 7)	5,041	5,012
- Profit receivables (Note 11)	53	43
- Rental deposit (Note 11)	162	162
- Amount due to related companies	(919)	(346)

Amounts due to related companies are unsecured, interest free and have no fixed term of repayment.

28 KEY MANAGEMENT PERSONNEL REMUNERATION

Key management personnel are defined as those persons having authority and responsibility for the planning, directing and control of the Company's activities, either directly or otherwise. The key management personnel include all the Directors of the Company, and selected senior management members.

Key management personnel's remuneration is as follows:

	2011 RM'000	2010 RM'000
Non-executive directors' fees	155	156
Key management personnel		
Short term employee benefits:		
Salary and other remuneration	592	571
Benefits-in-kind/perquisite	25	18
	617	589
Total	772	745

29 RISK MANAGEMENT FRAMEWORK

(a) Risk management framework

The Company has in place a risk management framework and methodology which is adapted from the local regulatory requirements, as well as Hong Leong Bank Risk Management framework, designed to support the identification, assessment, monitoring and control of significant risks covering market risk, credit risk, operational risk and takaful risk.

The day-to-day responsibility for risk management and control is embedded into the respective business lines and the management of each business lines is responsible to ensure that risk management process is functioning effectively. Risk Management functions as an independent party that is responsible for assessing and reporting the potential impact and probability of the significant risks identified across the organisation and the adequacy of related mitigation programs.

The Integrated Risk Management keeps the Senior Management and Board of Audit & Risk Managemnet Committee ("BARMC") abreast of material risks that requires attention and action plan on a regular basis.

(b) Capital management objectives, policies and approach

Capital management risk is defined as the risk of having an insufficient capital base, which undermines execution of strategic objectives, reduces the ability of a company to cope with losses not anticipated, and reduces confidence of the market, policyholders and creditors.

The Company's capital management objective is to maintain effective capital management processes and a prudent level of capital resources, consistent with the risk appetite agreed by the Board from time to time. It is designed to provide the principles to ensure the efficient management of capital where capital resources must be managed in a way which optimises returns to Shareholders, stakeholders and meets the expectation of the regulator.

The capital management strategy of the Company is to allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of Shareholders and maintain the level of capital as required by BNM.

On a half-yearly basis, the Company performs stress testing based on several adverse scenarios and stress levels as part of the part of the pro-active measures in monitoring and managing the capital position. The report will be presented to the BARMC and Board of Directors will be updated on the stress test results.

30 TAKAFUL RISK

The risk under any one takaful contract is the possibility that the covered event occurs and the uncertainty of the amount of the resulting claim.

For a portfolio of takaful contracts, the principal risk that the fund faces is that the actual claims and benefit payments exceed the assets of the fund. This could occur because the frequency or severity of claims is greater than estimated. Takaful events are random and the actual number and amount of claims can vary from the level established using statistical techniques.

a) Family Takaful

Takaful risk is the risk that inadequate or inappropriate underwriting, claims management, product design and pricing will expose the Company to financial loss and may result in the inability to meet its liabilities.

The Company's Family Takaful businesses are exposed to a range of takaful risks from various products. In providing financial advisory services coupled with takaful protection, the Company has to manage risks such as mortality (the death of policyholder), morbidity (ill health), persistency, product design and pricing.

The Company's underwriting strategy is designed to ensure risks are well diversified in term of type of risk and the level of covered benefits. This is broadly achieved through the use of medical screening to ensure participants' health condition and family medical history, regular review of actual claims experience as well as detailed claims procedures.

The mortality and morbidity risks are managed through the use of retakaful to transfer excessive risk exposures, appropriate actuarial techniques as well as other mitigation measures.

The table below shows the concentration of Family Takaful actuarial liabilities by type of product.

	Gross	Retakaful	Net
	RM'000	RM'000	RM'000
2011			
Mortgage Reducing Term and Group business	34,778	(31,009)	3,769
Others	26	-	26
Total	34,804	(31,009)	3,795

30 TAKAFUL RISK (CONTINUED)

a) Family Takaful (continued)

	Gross RM'000	Retakaful RM'000	Net RM'000
2010			
Mortgage Reducing Term and Group business	20,985	(20,535)	450
Others	24	(10)	14
Total	21,009	(20,545)	464

As all of the business is derived from Malaysia, the entire Family Takaful actuarial liabilities are in Malaysia.

Key assumptions

Material judgment is required in determining the liabilities and in the choice of assumptions. Assumptions in use are based on past experience, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information. Assumptions and prudent estimates are determined at the date of valuation and no credit is taken for possible beneficial effects of voluntary withdrawals. Assumptions are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations.

The principles on which the valuation was made were determined by the actuary having regard to the Takaful Act 1984 as well as relevant statutory requirements of the Insurance Regulations 1996 for conventional insurance.

For Mortgage type plans, the Company adopted the Net Premium Valuation Basis (NPV) with the assumption of 90% of Statutory Valuation Mortality Table 1996 and 4% discount rate.

For the investment linked plans, the Company took cognizance of JPI33 Part vii Section V, valuation of liabilities of Investment Linked business. The cash flow reserves were set up using a discounted cash flow method, to ensure that any future negative cash flow resulting from insufficiency of tabarru charges to meet expected benefit outgo are eliminated. Incurred but not reported reserve (IBNR) was set up as a 1/2 month risk charge.

For Group schemes, the reserve was set up as gross contribution income multiplied by Ultimate Loss Ratio of 80% multiplied by the ratio of unexpired months on top of a 2-month of Incurred But Not Reported (IBNR) reserve.

30 TAKAFUL RISK (CONTINUED)

(a) Family Takaful (continued)

Sensitivity

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net takaful actuarial liabilities, profit before tax and equity. The correlation of assumptions will have a significant effect in determining the ultimate takaful actuarial liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear. Sensitivity information will also vary according to the current economic assumptions.

	Change in assumptions	Impact on gross takaful actuarial liabilities	Impact on net takaful actuarial liabilities	Impact on profit before tax	Impact on equity*
	%	RM'000	RM'000	RM'000	RM'000
2011					
Mortality	+10	4,111	1,170	-	-
Mortality	-10	(3,967)	(1,017)	-	-
Lapse and surrender rates	+10	(87)	(32)	-	-
Lapse and surrender rates	-10	92	34	-	-
Discount rate	+10	(527)	(105)	-	-
Discount rate	-10	642	135	-	-
Investment return	+10	(487)	-	-	-
Investment return	-10	511	-	-	-

* Impact on equity reflects adjustments for tax, where applicable.

In the sensitivity analysis above, the impact from changes in best estimate assumptions for the Family Takaful fund is retained within the takaful contract liabilities. The methods used and significant assumptions made for deriving sensitivity information did not change from the previous financial year.

30 TAKAFUL RISK (CONTINUED)

(b) General Takaful

The General Takaful fund is exposed to underwriting risk which includes risk of incurring claims costs that are higher than expected due to the random nature of claims, their frequency, severity and risk of explosure to changes in legal and economic condition. This also could arise from the underpricing of the contributions, which results in the Company having to receive too little contributions to cover for the risks that it underwrites.

These risks are managed through various risk mitigation measures such as retakaful arrangement as well as appropriate actuarial techniques such as pricing.

The table below sets out the concentration of General Takaful contract liabilities, excluding AFS reserve by type of contract.

			2011			2010
	Gross	Re-takaful	Net	Gross	Re-takaful	Net
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Motor	200	(2)	198	215	-	215
Fire	14,707	(7,388)	7,319	6,313	(4,007)	2,306
Marine Cargo, Aviation Cargo and Transit	1,083	(684)	399	556	(6)	550
Miscellaneous	28,867	(17,465)	11,402	5,468	(1,724)	3,744
	44,857	(25,539)	19,318	12,552	(5,737)	6,815

Key assumptions

The principal assumptions underlying the estimation of liabilities is that the Company's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and average number of claims for each accident year.

Additional qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example, isolated occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors, such as, portfolio mix, policy conditions and claims handling procedures. Judgment is further used to assess the extent to which external factors, such as, judicial decisions and government legislation affect the estimates.

Other key circumstances affecting the reliability of assumptions include variation in interest rates, delays in settlement and changes in foreign currency rates.

30 TAKAFUL RISK (CONTINUED)

(b) General Takaful (continued)

Sensitivity

The General Takaful claims liabilities are sensitive to the key assumptions shown below. It has not been possible to quantify the sensitivity of certain assumptions, such as, legislative changes or uncertainty in the estimation process.

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross takaful claims liabilities, profit before tax and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear.

	Change in assumptions	Impact on gross takaful claims liabilities	Impact on net takaful claims liabilities	Impact on profit before tax	Impact on equity*
		RM'000	RM'000	RM'000	RM'000
2011					
ULRs for all business classes for all loss years	+10%	2,782	1,135	-	-
ULRs for Motor Act class for all loss years	+20%	7	7	-	-
ULRs for Personal Accident class for all loss years	+20%	435	382	-	-
ULRs for Fire class for all loss years	+20%	1,953	649	-	-
2010					
ULRs for all business classes for all loss years	+10%	751	287	-	-
ULRs for Motor Act class for all loss years	+20%	6	6	-	-
ULRs for Personal Accident class for all loss years	+20%	121	57	-	-
ULRs for Fire class for all loss years	+20%	764	130	-	-

* Impact on equity reflects adjustments for tax, when applicable.

The method used for deriving sensitivity information and significant assumptions did not change from the previous financial year.

30 TAKAFUL RISK (continued)

(b) General Takaful (continued)

Claims development table

In setting provisions for claims, the Company gives consideration to the probability and magnitude of future experience being more adverse than assumed and exercises a degree of caution in setting reserves when there is considerable uncertainty. In general, the uncertainty associated with the ultimate claims experience in an accident year is the greatest when the accident year is at an early stage of development and the margin necessary to provide the necessary confidence in adequacy of provision is relatively at its highest. As claims develop and the ultimate cost of claims becomes more certain, the relative level of margin maintained should decrease.

Gross General Takaful claims liabilities for 2011

	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	Total RM'000
Accident year						
At end of accident year	28	490	3,204	5,956	18,864	
One year later	45	446	1,908	5,249		
Two years later	1	126	1,020			
Three years later	1	78				
Four years later	1					
Current estimate of cumulative claims incurred	1	78	1,020	5,249	18,864	
At end of accident year	1	25	116	357	1,194	
One year later	1	73	408	2,301		
Two years later	1	67	966			
Three years later	1	72				
Four years later	1					
Cumulative payments to-date	1	72	966	2,301	1,194	
Gross General Takaful claims liabilities	-	6	54	2,948	17,670	20,678

30 TAKAFUL RISK (continued)

(b) General Takaful (continued)

Net General Takaful claims liabilities for 2011

	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	Total RM'000
Accident year						
At end of accident year	28	241	311	2,508	7,793	
One year later	21	156	260	2,535		
Two years later	1	74	119			
Three years later	1	54				
Four years later	1					
Current estimate of cumulative claims incurred	1	54	119	2,535	7,793	
At end of accident year	1	25	58	259	1,016	
One year later	1	54	86	1,114		
Two years later	1	49	93			
Three years later	1	52				
Four years later	1					
Cumulative payments to-date	1	52	93	1,114	1,016	
Net General Takaful claims liabilities	-	2	26	1,421	6,777	8,226

31 FINANCIAL RISK

Credit risk

Credit risk is the risk of loss due to the inability or unwillingness of a counter-party to meet the payment obligations. The credit risk and investment activities is monitored regularly with respect to single customer limit, sectorial exposure, credit rating and residual maturity in accordance to internal and regularoty investmnet guidelines and limits.

As date of the statement of financial position, the credit exposure is within the investment guidelines and limits approved by the Board and regulators. The maximum exposure to credit risk is the carrying amount as stated in the financial statements.

There were no significant changes to the creidt risk management of the Company.

Credit exposure

The table below shows the maximum exposure to credit risk for the components on the statement of financial position.

	Shareholders' fund	General Takaful fund	Family Takaful fund
	RM'000	RM'000	RM'000
2011			
Loans and receivables			
Fixed and call deposits	26,274	14,845	15,313
FVTPL - designated upon initial recognition			
Equities securities quoted in Malaysia	-	-	172
Government investment issue	-	-	1,536
Islamic bonds	-	-	3,421
Structured investments	-	-	76,961
Available-for-sale financial assets			
Equities securities quoted in Malaysia	5,312	-	1,034
Government investment issue	4,118	1,521	13,182
Islamic bonds	55,966	713	9,009
Investment-linked funds	4,000	-	-
Takaful receivables	-	12,888	5,878
Retakaful assets	-	25,539	33,072
Other receivables	8,173	4,147	552
Cash and bank balances	2,439	2,474	7,376
	106,282	62,127	167,506

31 FINANCIAL RISK (CONTINUED)

Credit risk (continued)

Credit exposure by credit rating

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit ratings of counterparties.

	Neither past due impaired					Not subject	Past due but	
	AAA	AA	A	BBB	Not rated	to credit risk	not impaired	Total
2011	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Shareholders' fund								
AFS financial assets								
Government investment issue	-	-	-	-	4,118	-	-	4,118
Islamic bonds	19,311	24,067	3,519	-	9,069	-	-	55,966
Equity securities	-	-	-	-	-	5,312	-	5,312
Investment-linked funds	-	-	-	-	-	4,000	-	4,000
Loans and receivables								
Fixed and call deposits	-	26,274	-	-	-	-	-	26,274
Other receivables	-	-	-	-	8,173	-	-	8,173
Cash and bank balances	1	2,437	-	-	1	-	-	2,439
	19,312	52,778	3,519	-	21,361	9,312	-	106,282

31 FINANCIAL RISK (CONTINUED)

Credit risk (continued)

Credit exposure by credit rating (continued)

	Neither past due impaired					Not subject	Past due but	
	AAA	AA	A	BBB	Not rated	to credit risk	not impaired	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2011								
General Takaful fund								
AFS financial assets								
Islamic bonds	-	613	-	-	100	-	-	713
Government investment issues	-	-	-	-	1,521	-	-	1,521
Loans and receivables	-	-	-	-	-	-	-	-
Fixed and call deposits	-	-	14,845	-	-	-	-	14,845
Takaful receivables	-	-	-	-	4,610	-	8,278	12,888
Other receivables	-	-	-	-	4,147	-	-	4,147
Retakaful assets	-	-	-	-	25,539	-	-	25,539
Cash and bank balances	1,223	1,246	-	-	5	-	-	2,474
	1,223	1,859	14,845	-	35,922	-	8,278	62,127

Company No.

738090	M

HONG LEONG MSIG TAKAFUL BERHAD
(formerly known as Hong Leong Tokio Marine Takaful Berhad)
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011 (CONTINUED)

31 FINANCIAL RISK (CONTINUED)

Credit risk (continued)

Credit exposure by credit rating (continued)

	Neither past due impaired					Not subject	Past due but	
	AAA	AA	A	BBB	Not rated	to credit risk	not impaired	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2011								
Family Takaful fund								
AFS financial assets								
Islamic bonds	3,509	2,079	2,514	-	907	-	-	9,009
Government investment issues	-	-	-	-	13,182	-	-	13,182
Equity securities	-	-	-	-	-	1,034	-	1,034
FVTPL financial assets								
Islamic bonds	982	2,439	-	-	-	-	-	3,421
Government investment issues	-	-	-	-	1,536	-	-	1,536
Structured investments	49,073	27,888	-	-	-	-	-	76,961
Equity securities	-	-	-	-	-	172	-	172
Loan and receivables								
Fixed and call deposits	-	-	15,313	-	-	-	-	15,313
Takaful receivables	-	-	-	-	5,878	-	-	5,878
Retakaful assets	-	-	-	-	33,072	-	-	33,072
Other receivables	-	-	-	-	552	-	-	552
Cash and bank balances	478	6,888	-	-	10	-	-	7,376
	54,042	39,294	17,827	-	55,137	1,206	-	167,506

Company No.

738090	M

HONG LEONG MSIG TAKAFUL BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011 (CONTINUED)

31 FINANCIAL RISK (CONTINUED)

Credit risk (continued)

Aging analysis of financial assets past-due but not impaired

	2011 RM'000
Takaful Receivables	
61 to 90 days	2,447
91 to 180 days	5,663
>180 days	168
	8,278

Impaired takaful receivables

At 30 June 2011, there is impaired takaful receivables of RM 6.703 million (2010: RM1.054 million). Impairment of takaful receivables is perfromed based on individual assessment of receivables where the contractual payments are in arrears for more than 180 days. No collateral is held as security for any past due or imparied assets.

A reconciliation of the allowance for impairment losses for takaful receivables is as follows:

	2011 RM'000	2010 RM'000
As at 1 July	1,053	87
Charge for the financial year	5,650	966
As at 30 June	6,703	1,053

31 FINANCIAL RISK (CONTINUED)

Liquidity risk

Liquidity risk arises due to inability of the company to meet its financial obligations as and when they fall due. The Company's investible funds are substantially placed in fixed and call deposits and other money market instruments. The Company endeavours to manage the maturity profiles of these financials instruments to meet financial obligations and working capital requirements.

Maturity profiles

The table below summarises the maturity profile of the financial liabilities of the Company based on remaining undiscounted contractual obligations.

For takaful contract liabilities, maturity profiles are determined based on estimated timing of net cash outflows from the recognised takaful liabilities.

Investment-linked funds' liabilities are repayable or transferable on demand and are included in the "up to a year" column. Repayments which are subject to notice are treated as if notice were to be given immediately.

	Carrying value RM'000	Up to a year* RM'000	1 - 3 years RM'000	3 - 5 years RM'000	5 - 15 years RM'000	Over 15 years RM'000	No maturity date RM'000	Total RM'000
2011								
Shareholders' fund								
Amount due to related companies	919	919	-	-	-	-	-	919
Other payables	8,721	8,721	-	-	-	-	-	8,721
	9,640	9,640	-	-	-	-	-	9,640

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011 (CONTINUED)

31 FINANCIAL RISK (CONTINUED)

Liquidity risk (continued)

Maturity profiles (continued)

	Carrying value RM'000	Up to a year* RM'000	1 - 3 years RM'000	3 - 5 years RM'000	5 - 15 years RM'000	Over 15 years RM'000	No maturity date RM'000	Total RM'000
2011								
General Takaful fund								
Claims liabilities	20,678	20,678	-	-	-	-	-	20,678
Takaful payables	19,646	19,646	-	-	-	-	-	19,646
Other payables	444	444	-	-	-	-	-	444
Total liabilities	40,768	40,768	-	-	-	-	-	40,768
Family Takaful fund								
Actuarial liabilities*	153,364	3,795	73,347		3,614		72,608	153,364
Takaful payables	5,190	5,190	-	-	-	-	-	5,190
Other payables	3,522	3,522	-	-	-	-	-	3,522
Total liabilities	162,076	12,507	73,347	-	3,614	-	72,608	162,076

*Unearned contributions and the retakaful's share of unearned contributions have been included in the "No Maturity Date" column as these are not contractual obligations.

31 FINANCIAL RISK (CONTINUED)

Market risk

Market risk is the risk of losses owing to changes in fair value of assets or financial instruments. The market risk factors are primarily volatility in market prices (price risk) or market profit rates (profit rate risk). The change in market price may be caused by factor(s) specific to the individual instrument or its issuer or factor(s) affecting all instruments traded in the market.

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The Company adopts prudent investment policies and strategies to mitigate adverse market risks. The investment policies guide the strategies on assest mix, asset quality, profit rate risk exposure and liquidity targets.

(i) Profit rate risk

Proft rate risk is the risk that value or future cash flows of a financial instrument will fluctuate because of changes in market profit rate. This risk arises due to differences in pricing or tenure of investments and liabilities. The profit rate risk is managed through setting the appropriate asset allocation reflecting the liability profile and the availability of the suitable instrument in the investment market.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, showing the impact on the Company's profit before tax and equity. The correlation of variables will have a significant effect in determining the ultimate impact on interest rate risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

	30 June 2011	
	Impact on profit before tax RM'000	Impact on equity* RM'000
Change in variables		
+ 100 basis point of profit rate	-	(1,512)
- 100 basis point of profit rate	-	1,592

* Impact on equity reflects adjustments for tax, when applicable.

31 FINANCIAL RISK (CONTINUED)

Market risk (continued)

(ii) Price risk

The Company's price risk exposure relates to financial assets and liabilities, whose values will fluctuate as a result of the change in market prices. Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to the individual instruments or their issuers or factors affecting all instruments traded in the market.

The Company has acknowledged the inherent risk of investing in equities. The Management is guided with investment policies that are approved by the Board in monitoring equity exposure and compliance with operational controls.

The following table demonstrates the sensitivity to a reasonably possible change in the fair values of the equity investments, with all other variables held constant showing the impact on the Group's and Company's profit before tax and equity. The correlation of variables will have a significant effect in determining the ultimate impact on price risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

	30 June 2011	
	Impact on profit before tax RM'000	Impact on equity* RM'000
Change in variables		
+ 20% of equity price	-	797
- 20% of equity price	-	(797)

* Impact on equity reflects adjustments for tax, when applicable.

(iii) Operational risks

Operational risk is the risk of losses resulting from inadequate or failed internal processes, risk management policies and procedures, systems failures, human performance failures or from external events. The Company seeks to minimise exposure by ensuring appropriate internal controls and systems, together with trained and competent people are in place throughout the Company. The Company uses an established program of comprehensive risk self-assessments in conjunction with independent internal audits to monitor and assess inherent operational risks and the effectiveness of internal controls.